OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM AND THE NEED FOR A NATIONAL CEMETERY IN THE STATE OF ILLINOIS

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

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OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM AND THE NEED FOR A NATIONAL CEMETERY IN THE STATE OF ILLINOIS

Friday, September 25, 1987

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice at 1 p.m., in Shorewood Inn, I-55 and U.S. 52, Shorewood, Illinois, Hon. Marcy Kaptur, presiding.

Present. Representatives Kaptur and Davis

OPENING STATEMENT OF CHAIRWOMAN KAPTUR

Miss KAPTUR. The subcommittee will come to order. First, let me say that it is a real pleasure to be here in the Joliet area and Shorewood, at the request of Congressman Jack Davis. Without question he is one of the most active and devoted members of our Subcommittee on Housing and Memorial Affairs. I do not think that there has been a hearing in Washington at which he has not been present.

He has been a real contributor to the bill that we crafted this past year. Our bill is the most major reform of the Veterans' Administration Housing Program since its inception.

I know how very busy his schedule has been and I, as Chair of the subcommittee, truly appreciate his participation. I think that the people of the Fourth District of Illinois can be very proud to have this gentleman serving your interests in all regards in Washington. So, Jack, we thank you for the invitation to be here today.

Mr. DAVIS. Thank you, Marcy.

Miss KAPTUR. I am going to call on you for remarks in a second; but for the benefit of those attending here, I would like to say that our hearing, here today, has a dual purpose. We are going to focus on the operation of the VA Home Loan Guaranty Program here, in Illinois. We are interested in the number of loans that are being made, because of the interest rate fluctuations. We are interested in hearing from the Veterans' Administration on how timely the work load is being processed. We are also very interested in taking a look at the foreclosed properties. I know that it is of particular interest to Congressman Davis, as well as myself, to see if we are moving the properties in the inventory quickly. And if not, why not?

We are also going to be discussing the need for a national cemetery in the Chicago area. A recent study conducted by the Veterans' Administration targeted the Chicago area as one of the major areas in our country that could best be served by a new national cemetery.

Over the last 5 months, our subcommittee, which is called the Subcommittee on Housing and Memorial Affairs, has held six hearings, on the Veterans' Administration Home Loan Guaranty Program, both in Washington, and throughout the country.

We have found that when we go out to areas like this one, we get the best information. We take it back to Washington, and we change the laws of this land.

We thank every single person who has taken the time to be with us today, and we welcome your participation in the hearings.

During our previous hearings, we not only focused on several specific problems facing the housing program, but we have taken a look at the needs of homeless veterans across our country. Therefore, our legislation proposes new techniques that we can use in the mortgage program to make housing more available to our veterans and help our veterans keep and hold onto those houses, should they experience financial difficulty.

I will not go through all of the provisions of our bill. I believe that we provided a summary statement at the door for any citizen who is interested. I think it is probably important to mention to this group, however, that last year, the foreclosure rate—the number of veterans who were losing their homes—rose by over 18 percent.

Recently we were down in Houston. Twenty-five percent of the properties that have been foreclosed nationally have occurred in that community due to economic problems with the oil industry and in agriculture. We have tried to be responsive at the national level to areas of the country in much worse shape than those of you here.

And so, we have tried to change our veterans' housing program through our bill to help areas like that one, as well as, to improve the operation of the program in areas like this.

We provide a special mortgage relief program which helps veterans who may be faced with losing their houses through no default of their own. In our bill which passed the House on August 3, we have also included an additional program to add money to the loan amount for rehabilitation purposes in order to dispose of the VA's foreclosed property inventory more expeditiously.

We have a real strong interest in not having eyesores sitting out there on the horizon. We want a very sound and affordable quality housing stock in this country, and we want to make sure that the Veterans' Home Program contributes to that.

We also, in this bill, do provide—and if there are any veterans' organizations sitting here, in the audience—we do provide opportunities in our legislation to permit organizations to acquire properties in the inventory at a 25 percent discount, in order that those properties can be improved and turned over to the use of veterans.

We were just over at the Hines Medical Center, this morning, in Chicago. There are many veterans being discharged from that particular hospital, as well as others around the country, who are very

much in need of housing. And we are looking for ways to link up the veterans who are in need of housing with the inventory that we have sitting there, empty in many cases.

We think that we have some language in our bill and some resources that will encourage these foreclosed properties to be used by veterans' organizations and non-profit housing groups across this country to benefit veterans.

I also wanted to say something in regard to a national cemetery. It is encouraging to note that, a bill that passed the Congress a few days ago, contained $225,000 to conduct an environmental impact study to assess potential sites in the Chicago area where it would be feasible to establish a national cemetery.

I want to compliment Representative Davis for his efforts in helping us try to identify appropriate sites here, in this area.

At his initiative, for example, the Military Authorization Bill of the Armed Services Committee, which he just happens to serve on, was amended to provide for a direct transfer of land from the Joliet Arsenal to the Veterans' Administration for this purpose. That bill has now passed the House, and is being considered by the Senate. This is certainly a site that will be evaluated as the Veterans' Administration proceeds forward.

I would like to also mention that Mr. Davis and I have had the opportunity to sit together at many Congressional hearings, and I know of his devotion to his community. He comes back home all the time. I want to say that I appreciate his help in working with us on our efforts to assist homeless veterans. We really appreciate your leadership. Before I recognize our first panel, I would like to recognize Mr. Davis for his remarks.

[The prepared statement of Chairwoman Kaptur appears at p. 61.]

OPENING STATEMENT OF HON. JACK DAVIS

Mr. DAVIS. Well, thank you, Madam Chairman.

Congresswoman Kaptur is one of the reasons that the Veterans' Affairs Committee is as good as it is and as good as it does for the veterans of this country. She is without doubt, one of the brightest young stars on the other side of the aisle, and on either side of the aisle, for that matter.

And without doubt she will continue to serve on the Veterans' Affairs Committee with a great deal of distinction. She is much too modest this afternoon because she crafted the legislation, for the most part, which you have just heard her explain and was too modest to tell you that this is her baby.

We all worked on the bill and we all had input into it, but this lady is the recognized and acknowledged expert in veterans' housing, programs for the homeless, and in the creative initiative programs of and the pilot programs that we are starting under her leadership that will return housing that has decayed and denigrated to veterans to fix up and resell. The list is endless.

As we all like to point out, the Veterans' Affairs Committee is the most bipartisan of all committees in the United States House of Representatives. And as I told the American Legion last Tuesday, when Commander Komer, the National Commander spoke in front

of our committee—it truly is a labor of love for all of us, and I am dedicated to that committee.

I thank Congresswoman Kaptur, the Chairwoman of my subcommittee, for her kind words about my attendance at subcommittee hearings, but not only is it interesting, you can see why you show up—she is good, she is bright, and she is energetic. So it is that you like to be there and you like to participate. We elicit from witnesses the absolute best that they have to offer and we take that and craft it into legislation that helps veterans.

That is what it is all about. I thank you all for coming this afternoon, and we are competing with some awfully good weather out there, but we have got a lot to tell you, I think, and a lot to hear from you, which is more important than telling you anything, because you are the ones that know what it is that you want. You are the ones that understand what it is that we have to understand and that is why—I think, by the way, Madam Chairman—this is the first Congressional hearing ever heard and held in the city of Joliet, if I am not mistaken.

So, I just thank you for taking the time and the trouble to give up this beautiful day to come out here to Illinois and be with us, and we look forward to the hearing.

And thank you, very, very much, Marcy.

Miss KAPTUR. Thank you very much for those kind words. You have read them exactly as I had written them, and they are entered in the record, for posterity.

I wanted to say that in order to meet the time constraints and still hear from all of those who are scheduled to testify, we have divided the witnesses up into four panels. I would ask the witnesses, when they come up and they speak for the record, to summarize their testimony in less than 5 minutes. We will enter their full testimony into the record. We have members here, from our staffs in Washington, who are also going to be pouring over that testimony with us.

So, please stay within your allotted time. We are going to let you know when your time expires, and we will remind you of that. I also have to tell you that we must be out of the room between 4:00 and 4:30—I am going to try to shoot for 4 p.m.—because we have another convention coming in here, which is a parakeet bird convention. So they have to clear the room and set up.

But I just wanted to ask the witnesses if they could bear with us, and we will try to respect their time.

Now, I would like to call the first panel. If you could come up here as I call your names, please, and take your place at the table?

Mr. Samuel L. Holmes, Director, of the Veterans' Administration Regional Office, in Chicago. Mr. Holmes, we appreciate your driving over here.

He is accompanied by Mr. Al Schneider, Director of the Loan Guaranty Office for the entire region, and Mr. Ronald Rogala, the Assistant Loan Guaranty Officer, who I understand has worked for the Veterans' Administration in the area of real estate for over 16 years.

We thank you, gentlemen very much.

And then for the other part of our subcommittee's business, I would like to ask Mr. Jack Metzler, who is the Director of the Vet-

erans' Administration National Cemetery Area Office in Philadelphia, PA to also please come to the table.

We generally start with the official witnesses from the Veterans' Administration. Mr. Holmes, you are our first witness this afternoon, and we welcome you. We look forward to what you have to say.

STATEMENT OF SAMUEL HOLMES, DIRECTOR, VETERANS' ADMINISTRATION REGIONAL OFFICE, CHICAGO, ILLINOIS; ACCOMPANIED BY: AL SCHNEIDER, LOAN GUARANTY OFFICER; RONALD ROGALA, ASSISTANT LOAN GUARANTY OFFICER; AND, JACK METZLER, DIRECTOR, NATIONAL CEMETERY AREA OFFICE, VETERANS' ADMINISTRATION, PHILADELPHIA, PA

Mr. HOLMES. Thank you, Madam Chairwoman, Congressman Davis and members of the subcommittee staff, on behalf of the Chicago Regional Office, I am pleased to welcome you and members of the staff to Illinois.

We sincerely appreciate your interest in the operation of the VA Loan Guaranty Program within the jurisdiction of our office, and hope that the information provided in the testimony of today will be useful to you.

After my testimony, Mr. Schneider is prepared to provide a detailed discussion on the VA Loan Program in Illinois, particularly with regard to the recent trends and new loan originations; defaults and claims and our property disposition activities.

Madam Chairperson, I believe that it would be helpful to begin with a brief description of our Regional Office's operations. The Chicago Regional Office has the responsibility for administering VA Loan Program in the entire State of Illinois.

Now, demographically the State consists of two diverse economies—the vast Chicago Metropolitan Area, comprising of the northeast corner of the State; and the primarily rural agricultural economy of the balance of Illinois.

Over 60 percent of the State's population lives in only 6 percent of this geographic area, consisting of the City of Chicago and its surrounding suburbs. In terms of veterans population, the State of Illinois is seventh largest in the Nation, with over 1,250,000 veterans. To serve these veterans, the Regional Office currently has a full-time staff of 434 employees, of which 107 or roughly one-quarter are assigned to the Loan Guaranty Division. This staffing level makes our office the fifth largest in the Nation in loan guaranty employment.

Since the inception of the VA Loan Program, the Chicago Regional Office has guaranteed over 395,000 home loans for veterans, representing a total face value in excess of $8.7 million.

Of these, only 29 percent are still outstanding, with over 64.5 percent paid in full, and only 6.5 percent terminated through foreclosure. For the 1987 calendar year, to date, we have guaranteed over 9,000 home loans. Surprisingly this represents a 57 percent increase in guarantees over the same period last year, despite the fact that 1986 was an all-time record-breaking year for the Loan Guaranty Program.

We do expect our new loan activity to drop off, however, as we clear the pipeline of loans in process, since before the increases in interest rates, that took place earlier this year. I am pleased to report, Madam Chairwoman, that there has been a drop off in defaults on VA loans in Illinois.

For several years, this office experienced a high level of defaults, and claims on guaranteed loans, so that it was particularly encouraging to observe an improving trend in this area, in recent months. Defaults reported since the beginning of the calendar year, are down 5 percent, compared to the same period last year. And our pending defaults are also 5 percent less than this time last year.

I am also pleased to note, that in the area of acquired property sales, the Chicago Regional Office has increased its sales 45 percent for the calendar year to date, over the same period last year. We have also been able to sell 24 percent more properties than were acquired so far this year.

Before concluding, Madam Chairperson, I would like to just briefly comment on the VA's efforts to provide assistance to homeless veterans in the Chicago area. Hines Medical Center is really the focal point of the VA's effort in this area, having received approximately $128,000 in fiscal year 1987 budgeted funds for that purpose.

And since embarking on this project, in June of this year, they have approved five half-way houses in which 16 veterans have been placed so far. The role of the Regional Office in this effort, is primarily one of communications. We maintain liaison with all facilities that regularly come in contact with these veterans, providing them information on programs in general, and specifically the Hines Project.

We have also exchanged training with other groups interested in the homeless, such as the Coalition, the Chicago Coalition of the Homeless, and other local groups.

Madam Chairwoman, this concludes my statement. And Mr. Schneider will provide more specific information. And we will be happy to answer any questions that you might have either now or at the conclusion of Mr. Schneider's remarks.

Thank you, very much.

[The prepared statement of Mr. Holmes appears at p. 64.]

Miss KAPTUR. Thank you, very much, Mr. Holmes.

We appreciate the brevity of your statement and we will go on to Mr. Schneider and then Mr. Rogala, and then we will open it up for questions later.

STATEMENT OF ALAN SCHNEIDER, LOAN GUARANTY OFFICER, VETERANS' ADMINISTRATION REGIONAL OFFICE, CHICAGO, ILLINOIS

Mr. SCHNEIDER. Thank you, very much, Madam Chairwoman.

And members of the subcommittee, it is, indeed, a pleasure to have the opportunity to appear before you, to discuss the operation of the VA Guaranteed Loan Program in Illinois.

As Mr. Holmes noted, my office does continue to process a heavy volume of new loan guarantees, and that is despite the three increases in the VA interest rate this year. However, the loan appli-

cations for most of these cases, do pre-date the rise in interest rates, and we have seen a significant decline in appraisal requests in recent months. In fact, the total number of certificates of reasonable value that we have been asked to issue, since the beginning of the calendar year, is up by over 40 percent, from the same period last year.

However, if we discount the anomalous work situation that we had in 1986, that resulted in the reduction of interest rates in 1985, and 1986, our current appraisal work load for the fiscal year is comparable to the average work load output for the 5-year period, prior to the fiscal year of 1986.

As a result of this moderating work load, we have been able to achieve timely service in all areas of origination, including loan processing, eligibility processing, and issuing certificates of reasonable value.

Mr. Holmes also commented on the encouraging downward trend in defaults reported on VA loans. This trend is particularly noticeable in the last 5 months, which has shown a reduction in reported defaults of over 20 percent, compared to this same time last year.

And we believe that this improvement is partially attributable to a strengthening in our underwriting methods, both from a national and a local standpoint, and a reversal of some of the difficulties experienced in the last few years, in the State's local economies.

Our downstate communities were particularly hurt by the nationwide deterioration in the farming and farming equipment industries, and the Chicago Metropolitan Area was suffering from weaknesses in durable goods, manufacturing and smoke stack industries, like steel production.

The Chicago area has also been affected, over the last several years, by a gradual transformation from what had been basically a blue-collar community to essentially a white-collar service-industry economy.

These changes, together with a migration of certain industries to the Sunbelt areas and the Chicago suburbs, cause a disruption in what had previously been stable employment patterns in the majority of the City.

Recent signs, however, do show a stabilizing trend in all of these effects with a consequent improvement in the ability of veteran area home buyers in our area, to obtain and keep dependable employment and thus, make the payments under the VA loan obligations.

These economic improvements have also been reflected in advances in our sales—in our program to dispose of our acquired properties. With the station's increased sales activities, as noted by Mr. Holmes, we have managed to reduce our acquired property inventory to an all-time high of 3,163 properties in June of 1984, to its present level of 2,599.

And this is particularly notable in light of Illinois' unusual lengthy foreclosure process which does affect our ability to acquire and dispose of properties on a timely basis. I am including an attachment to my testimony, which shows the average or the typical foreclosure in our area, which entails about 2 years from the initial default on the VA loan, to the point at which we can finally dispose of the property and recuperate a portion of our loss.

Because of these delays, this office is more inclined to accept deeds in lieu of foreclosure from defaulted veteran borrowers to save the time and expense to the Government that would result if we would allow the foreclosure to go on.

Last year, in fact, we accepted deeds in lieu for 24 percent of this Office's better than 2,000 total guaranteed loan liquidations, and that compares very favorably to a nationwide deed-in-lieu-rate of only 4.2 percent.

Once we obtain title to the property and find that it is vacant, we are able to list and sell it fairly rapidly. In fact, in the last few months, we have completed the property analysis and list of the property for sale, within 30 days from the end of the redemption period or vacancy, in 95 percent of the cases.

In addition, besides reducing our total property inventory, by concentrating our sales efforts on our older properties, we have been able to decrease properties on hand, for 12 months or more, by 28 percent so far this fiscal year.

We do hope to further improve our property sales records, in coming months with the installation of two personal computers in our division, one of which will be used to prepare sales closing documents on an automated basis, and thus, speed up that process.

And the other computer would be dedicated to a 24-hour bulletin board which would allow sales brokers immediate access to current property listings and advising of the status of their offers.

We expect that this information which will be updated on a daily basis, would make it easier for sales brokers to participate in our acquired property sales program and thus, result in more sales.

Madam Chairwoman, this concludes my statement and I would be pleased to answer any questions that you may have.

[The prepared statement of Mr. Schneider appears at p. 67.]

Miss KAPTUR. Thank you, very much.

Mr. Rogala, do you have anything for the record, or are you available for questions?

Mr. ROGALA. I am available for questions.

Miss KAPTUR. All right, then, why do we not proceed in the interests of time here, to Mr. Metzler. Even though you are both dealing with what may appear to be distinctly different topics, we, on this subcommittee like to feel that we house the veteran both while he is living and after he or she is deceased.

So, we feel a relationship between your respective functions with the Veterans' Administration. You may proceed.

STATEMENT OF JOHN C. METZLER, JR., DIRECTOR, NATIONAL CEMETERY AREA OFFICE, PHILADELPHIA, PA, VETERANS' ADMINISTRATION

Mr. METZLER. Good afternoon, Madam Chairwoman, and Congressman Davis. It is a pleasure representing the Veterans' Administration here in this hearing this afternoon, on the establishing of a new National Cemetery in the Chicago area.

I will try to summarize the highlights of my formal statement and answer any questions that you may have.

For the past several years, planning for the National Cemetery System has been based on the Regional concept. Under this con-

cept, large national cemeteries have been designated to serve the veterans in each of the Standard Ten Federal Regions. Chicago is located in Standard Region Number Five, with the Fort Custer National Cemetery, which I understand you recently have visited, designated as the Regional Cemetery for this area.

In 1986, Congress enacted Public Law 99-576. And this requires the Veterans' Administration to conduct a major study of the National Cemetery System and in this study, Chicago was identified as the first on a list of ten geographical areas where need for a new, national cemetery exists.

The study does not call for the expansion, however, of the National Cemetery System. Rather, it recommends a comprehensive policy review to determine the effectiveness of the regional concept, and whether, any additional cemeteries should be built.

Under the present policy, the Veterans' Administration is not intending on developing any new national cemeteries. So, I am not here today, to make any promises or commitments to you or to your subcommittee.

However, I can provide the subcommittee with some general information on what it takes to develop a new, national cemetery and to give my impressions of the land out at the Joliet Munitions Plant, and the likelihood of how this land would fit in our national cemeteries.

Veterans demographics is probably the most important item that we have to consider in establishing an international cemetery. Our experience shows that the majority of people travel in a 50-mile radius to a national cemetery, and somewhat to a lesser degree, a 100-mile radius.

With regards to the construction process, the Veterans' Administration has to comply with the same legislation, regulatory and procurement requirements of any other large Federal facility.

And from our past experience, it takes about 7 years for a new national cemetery to be completed from the start to the finish.

To whatever extent possible, various steps—

Miss KAPTUR. Excuse me, Mr. Metzler, may I interrupt you, just a second?

Mr. METZLER. Yes, Ma'am.

Miss KAPTUR. Could you pull your microphone a little bit closer, as some of the people in back cannot hear you?

Mr. METZLER. Okay.

Miss KAPTUR. Thank you, very much.

Mr. METZLER. To the extent possible, various steps of construction overlap in order to shorten the schedule as much as possible. Each piece of land has special consideration and this may have an impact on the 7-year cycle. For example, the property at the Joilet plant falls underneath of the control right now, of the Department of the Army. They have a requirement before they release any property to have a hazardous materials study completed on the property.

This study, from my understanding, from the Department of Army representatives would take anywhere from 2 to 2½ years. This would be in addition to our 7-year construction cycle.

The first formal step that would proceed after the property has been released to us, is an environmental impact study, this is re-

quired by law. This takes approximately 19 to 20 months to complete.

Land acquisition is another important step, which historically has taken about 18 months. This project requires that the VA, as well as the land owner come to an understanding of the exact boundaries of the property with a detailed survey, and that a title search is conducted and that the final approval has to go to the Justice Department.

Last week, at Congressman Davis' request, representatives of the VA Central Office, and I, had the opportunity to tour the Joilet Plant and we were able to get a good look at the properties available there, and I would be more than happy to answer any questions you may have on my impressions of the property and what we were able to get from our tour.

Madam Chairman, that concludes my statement.

[The prepared statement of Mr. Metzler appears at p. 71.]

Miss KAPTUR. Thank you and I will thank all of you gentlemen for keeping your testimony within the time limit.

Let me begin the questioning with Mr. Schneider, if I might, first on the home loan program.

Typically how long do your foreclosed properties remain in the inventory?

Mr. SCHNEIDER. I believe they are running something less than 10 months, from the time of the actual foreclosure.

Miss KAPTUR. And could you tell me what is the difference between the old and the new foreclosure procedures that your chart here outlines?

Mr. SCHNEIDER. The old procedure was the procedure that was in effect, prior to a change in the Illinois State Law that occurred earlier this year.

Miss KAPTUR. And how do you think that is going to impact on the loan guarantee program?

Mr. SCHNEIDER. It should do something to reduce the total amount of time the properties that are actually charged to us in custody. We anticipate that one positive effect would be to reduce the number of cases in which we had to file an eviction action to remove the occupant, so that we could sell the property.

Miss KAPTUR. All right. Some of the Regional Offices are disposing of these properties through auction. Could you give your personal assessment of that procedure?

Mr. SCHNEIDER. We did have an auction in Chicago, in Peoria, and while we were able to dispose of a great many properties, we had some concern about the price that we got for the properties at that time.

And currently we are able, as I indicated in my testimony, we are disposing of properties to some effective extent and we would be disinclined, at this point, to consider another auction, considering the past.

Miss KAPTUR. You mentioned in your testimony, a decrease in the default rate. What is happening with your foreclosure rate?

Mr. SCHNEIDER. Foreclosure rate is staying approximately the same. But we anticipate that the default rate, in coming down, will ultimately reflect it in the foreclosure rate, as well.

Miss KAPTUR. Could you tell me approximately within what time period this particular office becomes involved in servicing a loan to a veteran?

Mr. SCHNEIDER. We receive the notice of default 90 days after the first missed payment. That is the first indication that we would have that the veteran was in trouble on his home loan.

And, at that point, we do begin supplemental servicing actions. However, we put quite a bit of reliance on the holder of the loan to provide servicing. And, in fact, recently put out a release to our services, requiring them to take certain steps in contacting veterans. For instance, 20 days after the first missed payment, they are required to contact the veteran in writing and they are required to make an effort to reach him by telephone and they are required to have a face-to-face interview before foreclosure.

And our experience is that our services are doing a very good job of contacting veteran borrowers.

Miss KAPTUR. I did not hear the number of days, I think that I missed that. Approximately?

Mr. SCHNEIDER. We received, the first indication that we have that the loan is in default is the third payment missed.

Miss KAPTUR. Third payment?

Mr. SCHNEIDER. Right.

Miss KAPTUR. So that is 90 days?

Mr. SCHNEIDER. That is right.

Miss KAPTUR. Could you tell me what type of marketing you have been using in order to increase the sales of your properties?

I notice that you have targeted those that have been in the inventory a longer period of time, which is intelligent to do that. Maybe all of our regional offices are doing that, but, I think not.

What type of marketing are you using?

Mr. SCHNEIDER. We are publicizing the availability of these properties in the newspaper, twice a month, or every 2 weeks. There is a complete listing of all available properties in Illinois.

Miss KAPTUR. You have had no trouble with the national office, or the Central Office in attempting to do so?

Mr. SCHNEIDER. No, Ma'am, we have been able to do that.

And that, we found, to be a very effective way of advertising the availability of those properties. We are also very careful to keep control of the properties, as they age, so that we are reanalyzing the price that goes with the listed ad, to make sure that the price is reflective of local market conditions.

Miss KAPTUR. Do you have For Sale signs, here, in the Joliet, Shorewood, and Chicago regions, in front of VA properties?

Mr. SCHNEIDER. Yes.

Miss KAPTUR. There are For Sale signs, not just the warning sign in the window? You actually permit For Sale signs in front of properties?

Mr. ROGALA. The sign shows that—

Miss KAPTUR. Mr. Rogala, you can, if you want to, talk.

Mr. ROGALA. It is a sign that advises the passers-by that the property is a Veterans' Administration property and that information about the property is available at the property management brokers, so that you have got a phone number and name.

Miss KAPTUR. And that is actually shown in the window?

Mr. ROGALA. Yes.

Miss KAPTUR. I wanted to ask Mr. Schneider, your reaction, to some of the proposals that have been made to rent units that are vacant, as opposed to just letting them sit there. In certain neighborhoods we have had vandalism.

And we have in the Senate Veterans' Housing Bill, it includes a provision that would permit rental. Could you give your reaction to that, please?

Mr. SCHNEIDER. We would be somewhat concerned about the requirement that we rent the properties out. My experience has been that often, that only adds to the difficulty in selling the property when we had to go through an additional process to remove the tenant.

We much prefer to have the property vacant at the time that we were attempting to sell it, rather than have a tenant in there. We believe that our management brokers do a fairly good job of maintaining the properties and keeping track of those that do require repair or require maintenance, and certainly any indications that we would receive that the property was not being properly maintained, would be addressed very promptly by us.

Miss KAPTUR. Are you aware of any proposals around the country to actually have caretakers who are responsible for given properties, who would reside on site?

Mr. SCHNEIDER. Yes, Ma'am, I am aware that there are services being offered which would actually put people in the property and they would maintain the property and protect it and then at such time as we were prepared to sell it, or to show the property, they would cooperate and move out of the property very promptly, if we were able to sell it.

Miss KAPTUR. Can you tell us which regional office we might contact, in order to obtain that information, please?

Mr. SCHNEIDER. I am sorry, I do not, but I would be glad to obtain that information and furnish it to you at a later time.

Miss KAPTUR. All right, I would greatly appreciate it. This is going to be an item of disagreement between the House and the Senate, and I think that particular proposal, if we could find where it is operating or where it has been proposed, could help us get around that item.

Also, with realtors, how closely do you work with realtors, in this region, to market those properties? What is the role of the realtors in this region?

Mr. SCHNEIDER. Well, they play a very effective role. Obviously we rely very heavily on sales brokers and there are a few very prominent sales brokers in our area, that are very active in our program.

We maintain very close contact with them and we have professional property management representatives, whose sole job is to keep in close contact with the brokers to answer questions about the availability of the property and accept bids on those properties.

Miss KAPTUR. Okay, I am going to call on Mr. Davis here, for questions on either housing or memorial affairs. But I want each of you gentlemen to be thinking about, if you could in the housing program, any suggestions that you could give this subcommittee on

ways in which the existing program could be improved, from your extensive working knowledge over several decades now.

Are there any proposals that you would wish to give us, that would help us streamline, improve, make more efficient, the operation of this program to serve our veterans?

That will be the last question I will ask you, if you want to be thinking about that, and I will turn the microphone over to Mr. Davis.

Mr. DAVIS. Well, thank you, Congresswoman Kaptur.

Let me just ask you a couple of things, and I am going to cover a little bit of the same ground, Mr. Schneider, you are on the hot seat, because you are an expert. You are identified as an expert. Mr. Holmes knows what he is doing, it is a hot seat over on your side of the table.

Would you describe for me your network of property managers and let me ask you this first.

Do you contract with Century 2l or with a major franchise brokerage operation? Do you seek them out, do they seek you out and what is the exact role of that person who is listed on that sign in the window?

Mr. SCHNEIDER. Well, Congressman, typically they would seek us out. We received applications from would-be property management brokers fairly often and we review their qualifications and retain them for such time as we need to add another property management broker to a particular area, either because one is discontinued or—

Mr. DAVIS. What is the average inventory of a property manager? 100 homes, or 50?

Mr. SCHNEIDER. 400.

Mr. DAVIS. 400?

Mr. SCHNEIDER. Yes.

Mr. DAVIS. My goodness. Are most of them independent realtors, or are they affiliated?

Mr. SCHNEIDER. No most of them are independent realtors.

Mr. DAVIS. Independent realtors?

Mr. SCHNEIDER. Yes.

Mr. DAVIS. What demands do you make upon these property management brokers?

Mr. SCHNEIDER. Well, initially they are required to inspect the property and give us an estimate of what its value is and tell us what repairs are needed, and what kinds of maintenance should be concentrated on that particular property.

After that, they are required to visit the property, at least once a month to inspect it, and to make sure that the property is properly maintained.

And they also are required to give us any indication at the initial inspection of repairs that might be necessary to preserve the property or to make it more saleable.

Mr. DAVIS. Are these people involved in other retail sales? They must be.

Mr. SCHNEIDER. Yes, yes, they are.

Mr. DAVIS. I am not trick-bagging you, Mr. Schneider, but 400 properties on an average caseload, once a month, means that they

would have to visit about 12 or 13 a day, every day, to inspect them for their maintenance.

How in the world, does one ever do that and how are you assured that at least a drive-by or a fly-by every day, is occurring?

Because part of the problems that the Chairman and I have witnessed around the country and in our own experience, in my own neighborhood, as a matter of fact, in New Lenox, is that properties are deteriorating rapidly and there does not appear to be anybody paying any attention to some of the VA homes.

And of course, FHA is a whole lot worse, you can be congratulated, but it is that that problem exists. How do you discipline—a poor choice of words, perhaps, but I think an accurate one by intent—how do you discipline your property managers? How do you weed out the bad ones?

Mr. SCHNEIDER. Well, obviously if we are receiving many complaints about poorly maintained properties, part of the responsibility of the professional PM representative we have on our staff, is to make contact with that broker, and find out, if, in fact, there is a problem and if they are not being responsive, we would seek to remove them from a panel.

Now, we do have controls to make sure that they visit the property periodically. In fact, there is a required register that they must complete each time that they visit it, which is a minimum of once a month.

Mr. DAVIS. Well, would you not agree that maybe the caseload should be cut off lower? Do you have trouble finding these folks?

Mr. SCHNEIDER. No, not at all.

Mr. DAVIS. Well, do you not agree that maybe they ought to have 200 houses or lower their number of properties, or would that discourage them from coming to you, so that their volume was reduced and they did not make as much money out of it?

Mr. SCHNEIDER. That may be a factor. We are not paying them a great deal of money for the work that they do.

Mr. DAVIS. What do you pay them?

Mr. SCHNEIDER. We pay them $25 a month for their maintenance.

Mr. DAVIS. Twenty-five dollars a month?

Mr. SCHNEIDER. Just for the inspection and then in addition to that, they are required to contract for lawn mowing, and snow removal services.

Mr. DAVIS. And they can contract with any variety of people to do that, and do they have maximums placed on them for snow removal and lawn cutting, for instance?

Mr. SCHNEIDER. Well, the maximum would be normal for the area. We are familiar with what is being charged, and that would be what we would expect that we are charged.

Mr. DAVIS. Well, I still think that it kind of boggles the mind to think of these folks out there that are really doing their job, 12 to 14 times a day, every day, Saturdays and Sundays, included on 400 homes, but I will take your word for it.

What happens when they see maintenance? What happens when they take one over and it needs new siding and it needs some pipes replaced and all, do they then contract for that or do they call you

fellows up and say, you have got to take care of this one, it is over $5,000 or whatever?

Mr. SCHNEIDER. Well, if it is over $5,000, we do not have the authority to make those kinds of decisions, ourselves.

Mr. DAVIS. Really?

Mr. SCHNEIDER. Yes.

Mr. DAVIS. Is that the cutoff, $5,000?

Mr. SCHNEIDER. Yes, it is.

Mr. DAVIS. Well, I just happened to pick that out of the air.

That explains one of the problems that we have with a house in my neighborhood, it has had broken pipes in 3 years. Washington did not respond too quickly, apparently.

Miss KAPTUR. Would the gentleman yield?

Mr. DAVIS. Yes, Ma'am.

Miss KAPTUR. I am trying to get straight, you pay them $25—

Mr. DAVIS. Per visit.

Miss KAPTUR [Continuing]. Per month, per property, so that if an individual had 400 properties, they would receive $10,000 per month?

Mr. DAVIS. That is $1,000, is that right?

Miss KAPTUR. $10,000.

Mr. DAVIS. Is it $10,000?

Miss KAPTUR. For 400 properties.

I am trying to get just an average broker.

Mr. ROGALA. We are selling 240 properties a month, and we assign a broker immediately after the foreclosure sale. We have to live with the property through the redemption period until the property is listed and then sold. We have about 65 property management brokers in Illinois and they are broken up by neighborhoods, primarily.

But assigned properties are in various stages, from the time that we have acquired the property, which is immediately after the foreclosure sale, through the end of the redemption period and then through the time that the property is offered for sale.

We have about 2,600 properties presently on hand, but we sold 240 properties last month. And we acquired somewhere near 200 properties, so that these properties are moving constantly. So that there is an extremely large number of properties that we are processing, primarily because of the number of properties that we have acquired over the foreclosure period.

Now, you must remember that we cannot, while we must be aware of what the property is doing during the period of the redemption, in most jurisdictions—I am not confident to say in all jurisdictions—we really cannot touch that property. We cannot go in and we cannot inspect the interior, for instance, where the property is occupied.

Of course, I am at somewhat of a disadvantage concerning the property in Mr. Davis' neighborhood, but the point is that we are—I have multiplied incorrectly apparently as we are talking about 40 properties, we have 2,600 right at the present time.

Miss KAPTUR. So an average broker would take care of 40 properties per month?

Mr. SCHNEIDER. Yes, about 45.

Mr. ROGALA. But we are shifting the numbers constantly, okay, so that we have properties that go in and out of the assignment. Of course, once they are sold, they are no longer assigned to the broker.

Miss KAPTUR. Of the amount of money that the individual—he said that they would be paid, on average, $25 per property, and an average of 40 properties per broker.

Where does the $25 come from, the revolving fund?

Mr. SCHNEIDER. Yes.

Miss KAPTUR. All right, Mr. Davis, I will yield back to you.

Mr. DAVIS. Thank you and you cleared up a lot of things for me. I was in the Illinois General Assembly when the law was changed to lower the bankruptcy lengths of time.

And I am just curious—while you were doing the deed in lieu of which is actually a better procedure than even the short term foreclosure rate—you got very good at it, up to 24 percent when the nationwide averages 4.2 percent in the other regions.

Why were you so good at it?

Mr. SCHNEIDER. Well, we had a special incentive. And that was the 6 month period in the State tends to drive up in that 2-year period there where we can do nothing from the actual default till the time that we can sell the property.

It tends to drive up the government's expenses dramatically.

Mr. DAVIS. Yes.

Mr. SCHNEIDER. So, we were able to demonstrate a savings when we can accept a voluntary conveyance for a deed in lieu in most cases where we can contact the veteran borrower.

And we have very little hope of recovering the—

Mr. DAVIS. I guess the question is, don't you guys get together at conventions or something and talk about this, and educate your brothers elsewhere on how to do that? Because it does relieve the veteran, then, of a tremendous burden that is in process that is nettling him and nettling you. Does it not?

Mr. SCHNEIDER. Yes, it does.

Mr. DAVIS. It also relieves him of the assumption problems, does it not, when he grants you the deed in lieu?

Mr. SCHNEIDER. Well, if the veteran wished to sell the property on an assumption, he would, of course, receive his equity, hopefully in the sale.

Mr. DAVIS. Okay.

Mr. SCHNEIDER. The assumption—about the only connection I would see is that perhaps the assumption was in connection with the distress sale.

Mr. DAVIS. That is what I meant.

Mr. SCHNEIDER. The veteran was forced into having to sell the property to someone. He would still, in that case, at least walk away with the possibility of some kind of a profit on the property.

Mr. DAVIS. Of some equity. Okay.

Mr. SCHNEIDER. In many States, however, and in fact, in the State I was last assigned to, the proposal process is much shorter.

And in that case, the decision as to whether the best interest is to set the voluntary conveyance is driven much more by the issue of whether the veteran is ever going to be in the position to repay the loss that the VA would suffer if it were allowed to go into fore-

closure, which is the other consideration that we are required to look at as well.

Mr. DAVIS. How do you handle the counseling on that? Do you counsel your veterans that get into that kind of a jam? Do you try to help them dig themselves out of the hole? Because in Illinois, I think it was reduced to 6 months now, is it not?

Mr. SCHNEIDER. It is brief.

Mr. DAVIS. It is a very brief time.

Mr. SCHNEIDER. Yes, sir.

Mr. DAVIS. How do you handle that?

Mr. SCHNEIDER. Well, we do, in fact, in our contacts with the veteran, make a very determined effort to make him aware of what kinds of options he has available to him, including voluntary conveyance; including other options he might have available—specifically, selling the property if he can, which is, of course, the preferred alternative.

Mr. DAVIS. What about financial planning and getting him back where he can—

Mr. SCHNEIDER. And we do provide financial counselling. That is one of the rules that we play as well.

Mr. DAVIS. When will you throw up your hands in despair in distress of property if it is in really sad shape? Will you always fix them up to where you can sell them? Or will you just say, to heck with it, and go to auction? Or just keep lowering that price until somebody finally bites who is a handyman that will fix it up and sell it.

Mr. SCHNEIDER. Well this office, sir, has not had a very extensive repair program. Our experience has been that, most often, we are able to sell the property much more quickly, and thus recover the government's expenditure much more rapidly if we are not held up by having to waive a contractor's completed repairs.

We find that there is a very steady market of individuals that are looking for properties that may need some cosmetic repairs, so our—

Mr. DAVIS. So, you are going to take the hit in front, sit the unknown in front of you, get out, get the money back, and keep it in the fund?

Mr. SCHNEIDER. That is right, exactly.

Mr. DAVIS. Okay. Thank you, Mr. Schneider. You have enlightened me on a couple of things that I did not know despite all of our hearings.

Mr. Metzler, I told Art Hamerschlag, who came in to see me for the audience's benefit, as the Deputy Director of Memorial Affairs for the Veteran's Administration.

When he outlined to me the kind of schedule that you talked about for national cemeteries—if I may switch to that—I told him I did not wish to be the first veteran in this new cemetery in Joliet.

And because of that, we are going to hasten this process along. And while he agreed that we could do that, he did say to me that, indeed, for instance, the EIS has certain milestones that are required to be met even though it was government property to government property.

Insofar as the environmental impact statement is concerned, I understand that. That time can be consolidated somewhat, probably to 15 months.

The 18 months for acquisition of the property will be seriously compressed when we get the DOD Bill on the President's desk, and he signs the transfer of the property from the arsenal to the veteran's administration—if that is the site.

If not, we will have to proceed through that. The rest of the construction, I understand, might take 2 years, or even 3 years.

But I have seen things in the past, and I know you are an expert—but I do not think the Alabama cemetery took 3 years to construct from start—the first bull-dozer—until finish.

Actually, I am going to be standing, looking over your shoulder every step of the way as long as I am there. And if I am not there, this wonderful woman here is going to be standing there to make sure that you guys compress this cycle just as fast as you can.

And the reason is very simple. This study, done by your agency, sir, names the Chicago land vicinity as the number one site in the Nation most in need of a new national cemetery.

Despite the VA policy, there are three of us charging ahead, including the Chairwoman here—charging ahead with the first three sites on this study which was done by yourselves and paid for by the taxpayers.

And there are almost now one million veteran living in the immediate Chicagoland area that do not have access within 125 to 150 miles to a national cemetery.

So, armed with all that, we are coming after you. And we are going to see that we compress that cycle, and that the cemetery in the Chicagoland vicinity—hopefully here in Joliet at the arsenal, but wherever it is—is built so that I can have a few years left with my family before I join them in that cemetery.

Thank you very much, Mr. Metzler. I understand your testimony. And thank you, Madam Chairwoman.

Miss KAPTUR. Thank you very much, Congressman Davis. Mr. Metzler, I wanted to ask you for the record if, although the VA has yet to complete the environmental impact statement, and proceed forward on evaluation of all the sites around the country, could you give us some of your personal impressions, from your tour this week of the site here in Joliet?

Mr. METZLER. Yes, Ma'am. We looked at several pieces of property out at the plant area. And the northern site, approximately 200 acres is very nice land; it is currently supporting agricultural crops, and it would do very nicely to have a turfted element; and would look very nice as a national cemetery.

There are some problems, aesthetically, with the high-tension wire that runs right through the heart of the property, as well as a railroad line that runs through.

Both of these would require a rather large easement which would deter somewhat from the usability of the 200 acres. There is another piece of land across the street of approximately 555 acres which is a secondary site that has been identified by the military as a possible research development of explosions—I think they refer to it as RDX site.

And that particular piece of property is currently tied up, I think, internally, in the army, until they can discuss that issue, whether or not the primary site or the secondary site would be used.

That particular site, I think, is a much nicer site; certainly larger; has a little bit more wooded area to it where the first site is primarily open.

The one nice feature of the Joliet site, in its entirety, is the land—the utility systems are there already. And that is a big concern for us.

We have to bring utilities in on a lot of our other sites. There is a great big electrical transmission plant there. It has all the kinds of utilities needed to support a cemetery. That is a real big plus.

One of the kinds of concerns I am a little bit leery about is the traveling time from downtown Chicago out to the plant in Joliet.

That may be somewhat long.

Miss KAPTUR. Thank you. We appreciate—yes.

Mr. DAVIS. Would the Chairwoman yield just one moment? Mr. Metzler, now that the Chairwoman has raised the issue, we toured again, and I have been out there many, many times—we toured again the sites, yesterday.

And the middle site of which you spoke—the wooded site—is pastorally, absolutely spectacular, and will make a marvelous cemetery, and is plenty big. I think the army will discover the wisdom of their secondary site for the RDX production line.

And we certainly hope to get that since we are on the short list after Louisiana starts production on that. But there is changing technology throughout the military establishment that might even obviate the need for an RDX plan because propellent powders are becoming a thing of the past, or shortly will through technology.

There is a third site that you did not mention, however, and it is the one down the river that is also pastorally one of the most beautiful places in the world.

However, it does not drain all that well. I do not know whether you were aware of that or not.

Mr. METZLER. I did have the opportunity, sir, to visit that site, and I will share a few impressions on that.

Mr. DAVIS. Certainly.

Mr. METZLER. Of the three sites, I like that one the best.

Mr. DAVIS. It is prettier.

Mr. METZLER. It is a prettier site. It has much better access off of Highway 55.

Mr. DAVIS. Off both 53 and 55.

Mr. METZLER. Right, for travelling, it is the best site. There is one problem with a possible—the study for hazardous material and pollution would definitely have to be considered in that particular area.

My understanding that the military has done a preliminary study on it years ago. They found some traces of TNT residue, and they stopped their study, so the study was not completed to see the exact detail of what contaminants may be there.

For that reason, that piece of property has laid dormant for a number of years. It has been on the military's excess list though.

Mr. DAVIS. Yes, indeed. Well, thank you, Mr. Metzler. And thank you.

Miss KAPTUR. Thank you, Mr. Metzler, very much. I am now going to turn back to the gentleman in the housing area. Mr. Holmes, I have no questions for you, but perhaps one suggestion, and that is, I hope that you will encourage Mr. Schneider to have lunch with a lovely woman that we met this morning whose name is Annie Polk.

She is the Chief of Social Work Services at the Hines Medical Center. And the reason that I suggest that is because she is the individual charged with programs in this region for the homeless.

I think that with the additional federal money that is available for transitional housing, some of the Section 8 set-asides that are available, with the new properties coming on line at the Hines Center, as the new psychiatric building is constructed—I think the ground breaking is this afternoon as we are sitting here—that there are going to be some available units on site. There are over 240 beds right now. I think that housing people and medical people need to talk about some of these new resources that are available for the homeless.

So I would encourage you, as the Regional Director, to consider that option if it has not already been put in the works.

Mr. HOLMES. We certainly will. In fact, I might join them.

Miss KAPTUR. All right. She is one of the finest women I have met anywhere across this country in the area of serving the homeless. I was very, very, very impressed.

You have a real national resource in that woman, and I think she is quite open to suggestions. I feel the same way about Mr. Schneider.

I did not spend as much time with him before this meeting, but I think you have two very bright people. I think you can create some model projects here that the whole country can be proud of here in the Chicago region.

I then finally wanted to turn to Mr. Schneider and Mr. Rogala. From your years of experience in the VA Housing Program, is there any direction that you can really give us? You know the current program, and are familiar with our new proposals in our legislation.

If you could focus us a little bit, where would you say we need to devote additional attention? What are your suggestions?

Mr. ROGALA. Well, Congresswoman, from the standpoint of the increase in guaranty, I understand the Veteran's Administration has testified against an increase in guaranty at this time.

However, from a personal viewpoint entirely, I do feel that the time has come for an increase in the guaranty in mind.

In the Chicago area, our housing particularly proposed new construction. Those tend to at least hold a much higher price than the current $27,500 guaranty will support.

And for that reason, I would be interested in seeing an increase in guaranty because I feel that we would then be able to reach some more veterans than we are serving presently.

Also, I am familiar with a part of your bill which would provide for additional funds to be set aside at the time that we sold acquired properties for the purpose of rehabilitating those proper-

ties—and that is, again, entirely from a personal perspective; that would be a program that I would be personally interested in.

I believe that we could not only increase the pool of potential buyers for our properties by offering these properties from a fix-up standpoint, but also provide an additional incentive for those veterans, or for those people who buy those properties to continue to make payments on the loans that we have extended to assist in purchasing those—if they have some of their own sweat in the property, where they have actually improved the property themselves.

So, those are two of the areas that I would be very interested in seeing some improvements in our program.

Miss KAPTUR. All right. Thank you, Mr. Rogala. Any more comments? All right. I want to thank you gentlemen very much for coming here today.

And thank you for working for the Veteran's Administration, and for our veterans. We appreciate it very much on behalf of the country.

Mr. ROGALA. Thank you.

Miss KAPTUR. All right. Thank you very much. I would like now to call our second panel, which is going to be a large one. Mr. Phil Lasko, President of Lasko Realty; Mr. David K. Hill, Jr. President of Kimball Hill, Inc., Rolling Meadows, Illinois; Mr. Robert W. Strutz, President of RWS Development, Mokena, Illinois; Mr. Frank Wolff, Assistant Vice President of Sales of Draper and Kramer, Incorporated, Hanover Park, Illinois; Mr. James Gibson, the Executive Vice President of Loan Administration Division, Dovenmuehle Mortgage Inc., Schaumburg, Illinois; and Mr. Jerome Pintaro, Appraiser with Professional Realty Appraisal Service.

We welcome all of you gentlemen. We know that time is money; and that by being here today you are probably not earning as much as you could be. We thank you, however, on behalf of the people of the United States for sharing some of your important expertise with us and for guiding us in our efforts to improve the Home Loan Guarantee Program.

We are going to call on you in the order in which you are listed. We will begin with Mr. Lasko. We would ask you, again, to try to stay within the 5 minutes.

Good afternoon, Mr. Lasko.

STATEMENT OF PHIL LASKO, PRESIDENT, LASKO REALTY, INC., DUNDEE, ILLINOIS

Mr. LASKO. Good afternoon, Chairwoman. As you know, My name is Phil Lasko. I am a real estate broker and have been licensed in that capacity since 1961.

Our company is located in West Dundee, Illinois. And we have been at the same address for the past 17 years. I have been working with the Veteran's Administration as a Property Management Broker for about 11 years.

I do not really consider it work. It is an adventure. We enjoy what we do. Every day we encounter new challenges, and each has to be thought out carefully to bring that particular problem to a satisfactory conclusion.

Our job is property protection, safety and health. We visit the homes that we have in our inventory on a monthly basis, or more often if keys are missing or vandalism occurs; or to check repairs that were completed by contractors to see if they are done in workmanlike fashion, so that payment can be made for services rendered.

We write appraisals that include repair specifications. And we serve Demands for Possessions and Declarations of Forfeitures, and assist the Sheriff's Police with evictions.

The Veterans' Administration's policy now is to sell re-acquired properties in an as is condition, with the purchasers being responsible for repairing the property.

The property management broker is restricted to make minimal repairs, examples of which are as follows:

If there is excessive water in a crawlspace or a basement, or if there is an inoperable sump pump, we can have a new sump pump installed; or if there is not a sump pump at all, we can install a sump pump pit and a new sump pump to correct the problem.

If there is a roof leaking that is causing damage to the interior of the property, we can retain roof re-shingling bids and have the roof repaired.

The majority of VA properties that are acquired through foreclosure are in need of much repair, as they are in most instances totally neglected prior to the conveyance of the property to the management company.

The VA offers these properties for sale on a 30 year contract term, with a fixed interest rate, and the VA holds title to the properties.

The owner occupant purchasers of these homes are, in the majority, first time buyers and have just enough cash to make their down payment and the one percent funding fee, and the other closing costs involved in making the loan.

They do not have additional funds, or the ability to repair the homes they have purchased. My recommendation is that the VA make repairs to the properties, not to exceed 2 to 3 thousand dollars per home.

These properties could be sold with mechanical systems in operating condition at the time of closing, and the structures to be made safe, sound and habitable.

The costs of these repairs can be included in the sales price of the property, and would be paid for by the purchaser.

About 75 percent of the acquired properties are being offered with contract terms and the repair program that I recommend would pertain to those properties.

The other 25 percent of the properties are offered for sale to purchasers, are offered for sale to purchasers that can obtain conventional financing with a Savings and Loan Association or mortgage company.

Properties that are offered for sale should—I am sorry; I will go back a little bit. Properties that are offered for cash should also be put in a saleable condition so that when the mortgage lenders send their appraisers out for the purpose of evaluating the property, it will be in such condition so as to be approved by the lender for the appraised value.

If these properties that are offered for cash are not repaired, and therefore, not in saleable condition, most lenders will not make the permanent loan on the property.

And as a result, the VA will have to put the property back on the market for sale, thus losing a great deal of time in processing the original offer and the subsequent rejection of such offer.

If the property is listed for sale as is, it will not sell fast. The holding cost to the Veterans' Administration can be as much as $1,000 per month per property, or more.

Properties would sell much faster repaired, thus saving the government substantial sums of money. The VA would control the repair program internally, with the use of realty specialists and property managers.

Purchasers would benefit by having their homes repaired prior to possession, and the people near or next to these properties would be happy having their neighborhoods improved.

The personnel in the Property Management Section of the Veterans' Administration that I have contact with are dedicated, honest and hard working, and perform well.

Finally, in conclusion, I would like to say that I have a particularly good relationship with a Mr. William Collins, a Mr. Dave Stelzner, a Mr. Bobb Riley, Mr. Isiah Wallace, and Mr. Jeff Arnold.

They work under a great deal of pressure, and have heavy work loads, and they are to be commended.

[The prepared statement of Mr. Lasko appears at p. 79.]

Miss KAPTUR. Thank you, Mr. Lasko. Let's proceed on to Mr. Hill.

STATEMENT OF DAVID K. HILL, JR., PRESIDENT, KIMBALL HILL, INC., ROLLING MEADOWS, ILLINOIS

Mr. HILL. Thank you, Madam Chairperson. I appreciate this opportunity to appear before you, really for the second time.

I am really kind of doing it in two capacities, only this time, let me emphasize my bread and butter. Kimball Hill Inc. is a 51 year old company that has built many thousands of homes using VA and FHA government insured mortgages.

We are actively building somewhere between 500 and 600 homes a year throughout the Chicagoland Suburbs. We have a heavy focus on governmental programs.

And interestingly enough, I will have one dispute with another member of the panel who is our principal mortgage banker.

And we will have one issue that he is going to raise.

Miss KAPTUR. Mr. Hill, could I interrupt you? You had no written statement for the record?

Mr. HILL. I am sorry, I did not have an opportunity—and largely I did not because for the first portion, as the Vice Chairman of the Mortgage Finance Standing Committee of NHB, I want to merely second the remarks of Martin Perlman, our Vice President Secretary who testified at length before you July 31, and who identified the specific issues that still remain on H.R. 2672.

And I think, in answer to a number of questions from your panel has clarified the position of NHB on most of these issues.

So, I am talking specifically as a local builder. But it relates to H.R. 2672 in two important regards. Despite 50 years of serving veterans and other moderate income home buyers in Chicagoland, we are currently using, developing very few VA loans.

And I think the reasons that we talked about in Washington, why this is the case, can be brought into focus by my personal experience.

We sell products all the way from the mid 70's up, actually over $300,000 in Chicagoland. We do a large number of FHA loans.

The first reason that we do not do much VA business is not because there is a dearth of veterans in the Chicagoland 7.5 million population.

But it is because the guarantee maximum is set just low enough; and there are other aspects of VA programs which cause just enough difficulty, so that basically the veteran will always opt if he is going for a government insured mortgage—or almost always—will opt for the small down payment and the FHA mortgage.

It is nice that he has that option. And we have, of course, at NHB fought hard to preserve that option against some considerable pressure by the current administration.

But he does not take the VA loan because the VA loan is not pushed by the mortgage bankers; it is not as acceptable and instrumental where you have a relatively high price—we are not very high cost like California, or New Jersey.

Miss KAPTUR. What is your average cost here, sir?

Mr. HILL. Our average home price—help me, Frank—is about $110,000; maybe $115,000 now, it has gone up quite sharply in the last 6 months.

We are here in the fifth year of a recovery. I read Martin Perlman's testimony, and particularly his testimony relating to the Houston market.

And I would answer some questions on that to compare Chicago, as Congressman Davis well knows, in the early 1980's, was as depressed as Houston is now.

And maybe there is some guidance in terms of how—for instance, the deed in lieu program was done so affectively here.

There are some experiences that Keith Pettigo, who was the guarantee officer here, and now of course is head of the program in Washington, could share with you on how to handle that Houston experience.

Things—hard fought and hard learned lessons from the Chicago blood letting. But we are not able, because of the low guarantee.

So, it is very important to us that both H.R. 2672 and S. 9 do increase the guarantee amount. We have a problem. Chicago has a large number of homeless.

We have a problem with that—with the 60 percent formula that we discussed. And as I believe, Mr. Perlman indicated NHB would like the formula to at least be considerate of 50 percent, not over $40,000.

It is an intermediate position between the two bills. And we would hope you would consider that as you go into conference.

Just briefly—I know I have over-used my time already—just very briefly on the ARM, is the second reason. I bought a chart that was

prepared by the Federal Home Loan Bank Board, and updated through August.

And I really wish I had more copies of this. That is the percentage of ARMs which are currently being originated. As we have had not one but two major rate shifts since the early or mid March period, the percentage of ARMs being opted for—these are not mandatory—being opted for by home buyers across the country, has gone from the rough average of 24, 25 percent in the 1986 to early 1987 period, has risen 50 percent, and is still rising.

Miss KAPTUR. Does that chart indicate from the early part of the 80's? We can't see the years.

Mr. DAVIS. What is the low spike?

Mr. HILL. The low spike starts in the April quarter of 1985, continues right to the April quarter of 1987, and then jumps off the map as the rates rise.

And let me read into—

[Inaudible statement off of microphone.]

Yes, certainly, please. I will be happy to leave that. But let me read into the record just one small section. This is a summary—I am just back from our national Board meeting.

And we had our staff prepare a summary of mortgage interest rates, and I think these two paragraphs are particularly interesting.

"The interest rate changes in 1987 have occurred in a pattern that has widened the rate advantage that adjustable rate mortgages offer over fixed rate alternative.

"In the spring episode, most of the rate increase occurred in the long end of the market, and as a result, the rate difference between fully indexed 1 year ARMs, and 30 year fixed rate mortgages increased from 0.7 percent to over 1.5 percent.

"Most lenders offer customers further rate reductions for the first year of an ARM contract. So, the initial year, ARM fixed rate gap was more dramatic, increasing to over 2.8 percent at one point, in May, from around 1.5 percent at the end of March.

"Lenders maintained, roughly, a 2.5 percent to 2.6 percent differential between 1 year ARMs and fixed rate mortgages throughout the summer, despite some narrowing in the spread between short and long term rates.

"The fixed rate difference widened further in the recent rate run up, reaching almost 3 percentage points during the week of September 10th, bringing us right up to date."

That is why so many people are opting for the ARMs. And I am very thankful that your committee saw fit, and the House saw fit to include a pilot program.

Within this background, with this very, very rapid swing to ARMs. Just one final point. Short term rates are now far less volatile than long term rates.

The national capital markets explain that, and I could go on ad nauseam on why that is. But it is a fact that can easily be documented.

Because of that, the ARM actually tends to be a better mortgage investment vehicle. And the veteran does not have the option now.

We are trying hard to explain what is not an easy thing to explain, but is really very true to veterans groups. And we are very

happy that the House included a pilot program; we would love to see it a nationwide program.

I, personally, would love to see it in Chicago, as I am sure would a number of the other people who will testify today.

Miss KAPTUR. Mr. Hill, I appreciate your trying to stay within the time limit. I might say that on that ARM proposal, it is one that we worked hard to put in the bill.

Mr. DAVIS. There was a lot of resistance to that.

Miss KAPTUR. I was just interviewed Thursday, before I left Washington, by Army Times. Let me say that that is not widely shared—people are nervous about it.

Therefore, when we proposed the bill, we only asked for one demonstration. It will be of the VA's choice in any region of the country, in order to create a demonstration ARM within the VA system.

I am sure that if a regional office indicated that they wanted to be the pilot, Central Office might look favorably upon it.

Mr. HILL. Yes, I would like to be very parochial here, and appeal to Congressman Davis to help me and Keith Pettigo. I think this would be an excellent place to start the program.

Mr. DAVIS. Let's get them before they get out of the room.

Miss KAPTUR. I also wanted to commend the VA people who have remained in the room. I as Chair know where the VA people remained in the room to hear the other witnesses as we have gone around the country.

I am pleased to see that they are listening to what you say. I think that speaks well for the Chicago region. We are anxious to see an ARM proposal put together what works well, and works for the veteran.

It is impossible at this time to do it around the country. But if we can create a tight program, I do not see why it could not be duplicated in other places.

But we have to prove our case to a lot of other people who are interested in this. Mr. Strutz?

STATEMENT OF ROBERT W. STRUTZ, PRESIDENT, RWS DEVELOPMENT, MOKENA, ILLINOIS

Mr. STRUTZ. Madam Chairman and members of the committee, being a residential builder and developer in the Chicago area, with the majority of our financing offered our buyer, both VA and FHA insured programs, we have become very concerned with the viability of these programs, and how their pending changes now being proposed will effect and even curtail some programs in the near future.

I would like to discuss, briefly, three areas of concern our company has on the VA and FHA programs, and the changes that are being—how the changes would affect a median income family and their ability to purchase a home in today's housing market.

The first area I would like to discuss is the possible curtailment of the graduated payment program which, since this meeting, I have gotten a notice from my mortgage lender that this program has been curtailed.

Even though it has been curtailed, I would like to read my statement, and maybe what has happened to the program, and why the curtailment of it completely will affect quite a few buyers in both the VA and FHA market.

The graduated payment loan program, better known as the GPM, is a mortgage that enables buyers to have a small monthly payment requirement during the first years of their mortgage.

Mortgage payments will increase by a specific percentage each year, and then level off to a consistent payment over the life of the mortgage.

The GPM mortgage program was incorporated into the National Housing Act of 1974, and was offered by the VA and FHA in 1977.

With the GPM's low down payment requirement, gradual increase in monthly mortgage payments, and a higher allowable debt to earnings ratio used to calculate the mortgage amount a buyer can qualify for, the GPM program, since its inception, has helped thousands of young families starting out to purchase their own homes.

To legislate the curtailment of the GPM program would seriously effect the ability of the young families to pursue the American dream of owning their own home, the purpose the program was originally designed for.

Since I wrote this statement, I got a notice from our lender, which is one of the members on the Board, also, that the GPM program, as of September 15th, has been modified greatly.

The modification on the program—on plan 3 of the program—is specifically that most buyers up for, requires a down payment from 3 and a half percent now to nine percent.

We feel this 9 percent down payment makes it very difficult for most first time home buyers—veterans and non-veterans alike—to purchase homes.

The second area that I would like to go into is the need to the maximum mortgage amount—the increase the maximum mortgage amount allowed both on the VA and FHA insured loans.

The present mortgage selling allowed through the FHA is $87,250, which enacted in 1979, enabled a buyer to purchase a medium price home of 65 to 75 thousand dollars, with a minimum down payment requirement of 3 to 5 percent of the purchase price, with the allowable mortgage amount still far exceeding the sales price of the home.

Today's housing market, that medium price home now exceeds $100,000 in and most of the urban markets, and is escalating as demand grows.

With such a disparity between the allowable mortgage amount, and the cost of a medium price home, the average home buyer would need a down payment of more than 12 to 15 percent of the cost of the home to qualify for, in this case, and FHA insured mortgage, but it does run the same, basically, for a VA mortgage under the current guidelines.

With the original intent of the FHA insured mortgage programs to make home ownership obtainable to more families, unless the maximum mortgage amount of $87,250 can be increased to $102,250 to keep in line with current housing costs in the current areas, as years go by, the cost escalates—the effectiveness of the program

will diminish to a point where a first time home buyer will no longer be able to look to FHA or VA programs for help in purchasing their first homes.

The last area I would like to cover is the need to extend the permanent authority to both FHA and VA In the past 12 months, the VA and FHA were shut down six separate times for a combined period of 51 days during peak periods of high demand due to the fact funding had not been allocated.

While the VA and FHA were shut down during these periods, great unrest existed throughout the mortgage and real estate industry as a whole.

The validity of the VA and FHA insured programs as a whole were severely criticized for leaving not only unknowing public purchasing homes with VA and FHA mortgages put the entire industry on alerts without a reasonable explanation how this could happen, and if it would happen again.

During the 51 days, the VA and FHA were shut down, all processing of new applications were curtailed, and no case numbers were issued.

Closing of loans were held up unless they were previously scheduled before the shut down. Processing of loan applications already in for submission were held up without any firm commitments being issued.

As you can imagine, from a builder's standpoint, the uncertainty this shut down caused. It is desire myself, and all builders who were caught up in the shut down of the VA and FHA that a bill can be provided to give the VA and FHA the permanent insurance authority it needs to provide stable funding at essentially current levels, or greater.

In conclusion, the inception of the VA and FHA mortgage programs has lead the way to the construction of hundreds of thousands of homes throughout the United States being purchased by families using both the VA and FHA insured mortgage financing programs, where in most case these families probably would not have qualified under strict conventional lending guidelines.

The production of these homes has also created hundreds of thousands of jobs, and has made residential construction one of the biggest industries in the United States.

It is for this reason that I feel we cannot let our current VA and FHA mortgage programs become outdated and obsolete.

It is not only the responsibility of the homebuilder but that too of government agencies, through legislation, to keep home ownership affordable for families now, and those of our children.

Thank you.

[The prepared statement of Mr. Strutz appears at p. 82.]

Miss KAPTUR. Thank you very much, Mr. Strutz. Mr. Wolff?

STATEMENT OF FRANK WOLFF, ASSISTANT VICE PRESIDENT FOR SALES, DRAPER & KRAMER, INC., HANOVER PARK, ILLINOIS

Mr. WOLFF. Madam Chairwoman and Congressman Davis, my name is Frank Wolff. I am Sales Manager of Draper and Kramer mortgage banking company out of Chicago.

Our company accounted for approximately 50 percent of the total VA master panel processing in the Chicago region during the last 12 months, which makes us the leading FHA/VA lender for new construction and project lending in this area.

I am also Secretary Treasurer of the Illinois Mortgage Bankers' Association, and will be Vice President of that organization next year.

I appreciate the opportunity to speak to you today.

The first item I would like for you to consider is the implementation of a negotiated interest rate similar to that of the Federal Housing Administration.

The fact that the maximum VA interest rate, as regulated by the Veterans' Administration, is a disadvantage to veteran purchasers.

Since the veteran borrower cannot negotiate a market rate of interest with his or her lender, and since the veteran cannot pay any portion of the discount charges, the veteran is put in a position to have some sellers not sell to them because the burden of discounts would now be that of the seller.

If the seller is responsible to pay the discount points, most likely, the price agreed to will be higher than that would have been agreed if an alternate type of financing was available.

Or maybe the VA offer would not have been accepted at all by the seller. It appears to me that if the VA were to allow the interest rate to be determined by the open market, and the VA would allow the veteran borrower to pay a portion of the financing cost, veteran borrowers would get the benefit of the most competitive pricing and terms.

This can only happen if they can negotiate the interest rate and payment of discount. Conventional loans and FHA loans allow the borrower to pay a portion or all of the financing fees which include discounts.

It seems unreasonable to allow veterans to pay a portion of the discount charges, or at least to negotiate a rate, which would allow for the lessening of these charges.

As a point of interest, VA refinances do allow a veteran to pay all the fees, including discounts. So, why would they not be allowed to pay them in the purchase of real estate?

Another issue of concern, which concerns the amendment which would change the maximum guarantee payed to a lender of VA home loans to the present 60 percent to 30 percent is something to be concerned with.

In my opinion, the amendment change will be counter-productive for veterans, sellers of real estate, and mortgage lenders.

With the present VA no-bid situation what it is, a reduction in maximum guarantee will only serve to lessen the availability of VA loans to those who need them the most.

Those homes, which sell for less than $92,000 will no longer be entitled to the $27,500 guarantee, which means that lenders will reconsider their policies of making such loans.

The question of no money down lending on the lower priced housing will certainly have to be considered with this added financial exposure to lenders.

I am sure you are aware that the mortgage being made to veterans will cost lenders more, in case of foreclosure due to this 30 percent maximum guarantee.

As the price of housing to veterans decreases, the exposure to lenders increase because the guarantee formula of 30 percent, or $27,500, whichever the lesser, comes into play.

I, for one, would rethink a no money down policy where lower priced housing is concerned.

For certain, I would tighten up my company's underwriting standards which in the long run could hurt a portion of the community of veterans wishing to use their VA entitlement.

There is another issue dealing with the refinancing of existing VA loans. The refinancing policies should be changed to allow veterans the opportunity to obtain lower interest rates, as well as to be able to take out equity in properties which presently have VA mortgages.

Under the current regulations, a veteran borrower can only refinance an existing VA loan to lower his present interest rate.

When doing so, they are allowed to refinance their existing VA debt, as well as the closing cost and discount charges.

If, by chance, the veteran has a second mortgage, or some other long term debt which he or she would like to pay off from the equity of the property, they cannot do so under the present regulations.

The present regulations allow a veteran who wishes to refinance a home—who does not presently have a VA mortgage—the opportunity to mortgage his property up to the appraised value.

By doing so, this veteran can take cash equity out, and do with it as he or she wishes, where a veteran who is refinancing an existing mortgage cannot do so.

If you carry this one step further, present regulations do not allow a veteran to refinance a paid off VA mortgage, since the veteran is required to dispose of the property before he or she can get restoration of their entitlement.

This too should be changed because it seems to be ridiculous that a veteran has to sell his property or just give it away.

As for the assumption, it is my feeling that the VA should require lenders to underwrite all assumptions of VA loans which occur during the early part of the mortgage.

I would recommend a policy similar to that of the FHA, which is to require underwriting on loans less than 2 years old, or at the very least, 1 year old.

I also recommend that the VA allow lenders approved to process loans under the automatic approval basis to hire their own staff appraisers.

If the lender chooses to have a VA assign them appraiser, they should require the appraiser to be submitted directly to the lender in the same fashion FHA does.

In light of the lender's financial responsibility, and the VA's ability to spot check a representative percentage of all appraisals completed, the risk of poor appraisals would be at a minimum.

In fact, the fact that the VA is under-staffed to review an issue appraisal on a timely basis is just one of the reasons this should be changed.

Finally, in light of the rising interest rates, it appears that a VA adjustable rate mortgage, similar to that of the FHA would be appropriate and beneficial to veterans wishing to finance their homes.

Since the risk of high interest rates is now being shared by both borrowers and lenders, it seems to me that the program guaranteed by the VA should be competitive and desireable to the marketplace.

This means that something other than 15 and 30 year fixed rate mortgages should be offered.

Thank you for the opportunity to speak to you.

[The prepared statement of Mr. Wolff appears at p. 85.]

Miss KAPTUR. Thank you, Mr. Wolff. I just wanted to state for the record, for both yourself and Mr. Hill, based on some statements you made, as well as your written testimony, that perhaps the latest version of our bill has not been made available to you.

Please be aware that the bill, as currently passed by the House, would raise the guarantee amount of the VA from $27,500 to $40,000.

And it would, with no down payment. Which would mean that you would have a maximum loan of $160,000—just so you are aware that that is what the House bill states.

Mr. HILL. It is 40 percent, not 30 percent.

Miss KAPTUR. Yes. Excuse me. And there is 40 percent, not 30 percent.

Mr. WOLFF. But the 40 percent is part of the equation because it is an either or situation; it is $40,000, or 40 percent.

Miss KAPTUR. Yes.

Mr. HILL. 40 percent up to $40,000.

Mr. WOLFF. But right now, we are at 60 percent which allows us a larger guarantee.

Miss KAPTUR. Yes, we are aware of that. Our original proposal was 30 percent because the secondary market will buy anything guaranteed 25 percent.

So, we are now 15 points above what the secondary market purchases in the amount that we do guarantee. But that is a change from existing law which is 60 percent, down to 40 percent.

And I heard what you said. You recommended 50 percent, but I just wanted to clarify that the total loan amount is raised to $160,000.

So, that should help give more flexibility in parts of the country where housing prices are higher.

I wanted to move on to Mr. Gibson, please?

STATEMENT OF JAMES GIBSON, EXECUTIVE VICE PRESIDENT, LOAN ADMINISTRATION DIVISION, DOVENMUEHLE MORTGAGE INC., SCHAUMBURG, ILLINOIS

Mr. GIBSON. Thank you. My name is Jim Gibson, I am an executive Vice President with Dovenmuehle Mortgage in Schaumburg, Illinois.

I am charge of the Loan Administration division. Dovenmuehle is a mid-sized mortgage banker. We service 64,000 single-family residences nationwide.

Approximately 40 percent of those loans are located in the State of Illinois. We service just under 20,000 VA guaranteed properties, and just over 5,000 of those are located within the State.

I have personally been involved with the servicing of VA mortgages since 1969. Needless to say, we have seen considerable changes over those past 18 years.

In terms of change, the Veterans' Administration has never really prided itself in being a leader within the industry. Their program is predicated upon the assumption their loans will be serviced in a prudent type manner by the holder, or the mortgage servicer of the mortgage.

The VA lender's handbook gives the lender or servicer a fairly broad discretion in the servicing of VA loans. VA followed HUD in its enactment of the partial payment regs in the mid 1970's.

Those regulations were undoubtedly needed and helped in the extinguishing and the fast foreclosure philosophy that one time existed in the mortgage banking industry.

The VA, again, followed HUD in its proposed credit bureau reporting requirements. HUD initiated the procedure in late 1986, the VA is in the process of following.

Although they tend to follow HUD on occasion, the Veterans' Administration takes no backseat to any governmental agency, in terms of mortgage servicing.

To their compliment, the Veterans' Administration's common sense approach tends to react, and over react in initiating procedures.

The forethought in the implementation of the Credit Bureau reporting procedure is a good example. They reviewed all sides and concerns prior to their actual implementation of the requirement.

Bottom line, I would say the VA is both realistic and reasonable to deal with on a pragmatical basis. There is one area of the Veterans' Administration, where they had played a lead role, and is definitely unique—that being the election to exercise their right to pay the guaranteed portion of the debt, and refuse conveyance of the property on foreclosed loans.

This is referred to as a VA no-bid process. In review to the many changes that have taken place in the 1980's—we have seen the complete restructuring of the federal bankruptcy laws.

The recent Illinois legislation change in foreclosure process in this State, as well as Internal Revenue reporting requirements that were established in 1985, no single change has so negatively impacted the mortgage industry as much as the VA no-bid process. Let me explain.

Mortgage bankers such as Dovenmuehle Mortgage functions as a servicing conduit between the actual veteran and the private investor, or GNMA certificate holder.

In the case of a Government National Mortgage Association pool mortgage, the monthly principal and interest is paid to the certificate holder even when the veteran fails to meet his monthly obligation.

The average service fee income received on a GNMA pool VA loan equates to 44 basis points. Example would be a $20,000 mortgage balance, with a service fee rate of 44 basis points, renders the service of an annual income of $88, of $7.33 a month.

The service fee income is not realized unless the monthly mortgage payment is received. As you can see, the profit margin is minimal, and substantial losses occur on delinquent and foreclosed loans.

The VA's no-bid procedure has severely compounded the loss ratio associated with foreclosures. It has placed the mortgage servicer into a situation of marketing and selling properties originally guaranteed by the Veterans' Administration.

Published figures show that the average loss on VA no-bid range between 15 and 25 thousand dollars. I question the reasonableness of the program, being the servicer has no underwriting authority on VA's simple assumptions.

We at Dovenmuehle experience a 23 percent assumption rate on foreclosed VA properties resulting in no-bid where the person foreclosed out is not the original veteran.

Finally, I think it should be noted, we are experiencing a cultural change within this company as to the commitment to home ownership.

The long term effect of the reduction of steel and oil production, substantial depreciation of land values within certain geographic areas, the increased problem of alcoholism and drug abuse, as well as the ever increasing divorce rate—this company all combine to tarnish what was once the great American dream.

I realize legislation has recently passed, and is presently pending that may aid mortgage bankers and the stifling problem of VA no-bids.

I ask this committee to vigorously back any such legislation as a means of maintaining a viable VA guaranteed program in the future.

Thank you.

[The prepared statement of Mr. Gibson appears at p. 89.]

Miss KAPTUR. Thank you, Mr. Gibson. You would make an excellent member of Congress. You stayed within your time limit.

[Laughter]

Finally, Mr. Pintaro, we do not have a written statement from you?

Mr. PINTARO. I did send it in Monday.

Miss KAPTUR. All right We did not receive it, so, you will have to read clearly and loudly, please.

STATEMENT OF JEROME A. PINTAGO, APPRAISER, PROFESSIONAL REALTY APPRAISAL SERVICE

Mr. PINTARO. Madam Chairwoman, Congressman Davis, and distinguished members of the committee, for the past several years the government insured housing programs—namely the Federal Housing Administration and Veterans' Administration residential mortgage insuring programs—have afforded home ownership to many lower and middle income families within the metropolitan Chicago housing market area.

The following items to be covered are, in my opinion, are areas of possible concern that may exist within the programs.

The Veterans' Administration mandates a ceiling interest rate for insured residential mortgage loans. As a result of this ceiling

interest rate, discount points are generally required to essentially make up any deficiency between the ceiling interest rate and the typical market rate.

These discount points are typically required to be paid by the seller, who in turn may make every attempt to pack or include the required discount points in the sales price, thereby transferring the discount points charged back to the purchaser.

The result of this is the purchaser winds up paying not only the discount points, but interest on the latter for the next several years.

The housing market is inflated even further by the amount of the discount points being packed into the sales price which results in an inflated sales price being reported, which in term then is sales data used by appraisers in writing appraisals for competing properties within a specific market area.

Additionally, pressure is on the appraiser who receives an assignment to appraise a property where discount points may be packed in.

Is the appraisal process so fine tuned that the appraiser can always identify 2 to 5 percent discrepancy in the market? I seriously doubt not.

And furthermore, if the appraiser were to, the appraiser certainly could be accused of low-balling, or a vast other number of discriminatory tactics hurled by possibly the real estate broker, buyer, seller, or even a local governing authority the property is situated in.

Finally, the worst case situation comes when the ceiling rate and the market rate spread is so significant that the discount points are prohibited, and VA insured financing becomes not feasible within residential marketplace.

The number and selection of appraisers the past few years within the purview of the government insured programs, and more specifically, within the FHA, has changed dramatically.

As a result, in today's marketplace, the appraiser is very likely to be an employee of the lender he is writing appraisals for; typically answering to the management team of the lending company.

Typically, the staff appraiser writes appraisals solely for the lender he is employed by. This contrast with the independent fee appraiser who is essentially self-employed, and who writes appraisals for a number of lenders, as well as other users in the industry.

It could be further speculated that in some circumstances that the appraiser and real estate broker, or possibly the lender or lender's representative may share adversarial positions concerning the appraisal process or the final value conclusion, with respect to residential appraisal report.

It is imperative that the appraisal process remain as independent as practically possible to insure that truly accurate and reflective market value conclusions are being provided.

It is important that those individuals writing appraisals as well as those who are in the field review capacity be qualified as well as experienced within the residential appraisal process.

And appraisal is, and should remain an accurate, supportable and defensible estimate of market value.

Repair requirements associated with government insured appraisals is one of the areas of greatest notoriety with the public for the past several years.

The condition of a property is typically a unit of comparison, which is generally always considered in the residential appraisal process.

What is typical condition in a particular market area may not be typical in another different market area. Required repairs that do not affect the subject property use livability, nor further preservation of the subject improvements should be reflected within the appraisal process in the final value conclusion.

Repairs required by a seller are essentially a further discounting of sales price, and are rarely completed within the quality of workmanship that would be typical in a marketplace in the industry.

A final value conclusion that reflects the as is condition of the property, except for items of safety, soundness and sanitary conditions are observed, contrast with the possibly more inflated as repaired value, where the purchaser ultimately pays for repairs or improvements he or she may not even need nor want.

Additionally, in the area of new construction, prefinal inspections may be redundant, time consuming and costly where accepted local code enforcement programs exist.

Thank you.

[The prepared statement of Mr. Pintago appears at p. 93.]

Miss KAPTUR. Thank you very much gentlemen. Now we are going to open it up for questions. I want to start with Mr. Wolff.

Could you explain for my benefit, please, how a 40 percent guarantee on a $50,000 house, let's say, which would be $20,000 of the sales value, is not sufficient for the marketplace to move properly in this country?

Mr. WOLFF. Well, what happens is, within Illinois, because of the time it takes to go for foreclosure, and to get the property out—it is distressed property; we are dealing with, as Mr. Gibson said, lots of—there is a major monetary loss when we go into foreclosure.

And if you take 40 percent of $50,000, you are talking about $20,000 versus the old program where we would be getting $27,500.

I mean, maybe the program was always in existence, and on the books the way we are now implementing it—with the VA no-bid—but we have been experiencing, with the exception of the last few years, an opportunity to recapture at least the major part of our losses.

We were not losing as much money in a foreclosure.

Miss KAPTUR. Mr. Hill, did you want to say something? I see your hand up.

Mr. HILL. Yes. I just wanted to follow that with—when you say 40, you say it as though it is $20,000 on the 50, but that is 27 percent less than they had under long existing legislation.

Second point is that you have got a removal now of many lenders from the business as they look at the no-bid process. The testimony that you have had here indicates that clearly you have to put these two pieces together.

A no-bid situation means that they have to ride completely on the value of the property. And in Illinois, in particular, you have

this, well, it is a shorter period of time than it used to be, thanks to recent—not that recent any longer—legislation.

It still is a horrendous process. Illinois still is one of the top or worse ten States in terms of the overall averaged time before final redemption is accomplished; and you are free to sell the property.

So, you have a tremendous period of time where the property wastes. And the statistical average loss is such that lenders are increasingly simply getting out of the VA business—qualified, competent lenders—because of the no-bid process.

Now you had on top of the no-bid process a very sharp diminution in the lower end of your mortgage guarantee amount. And it is two strikes and you are out, really.

Miss KAPTUR. Well, I find those comments very interesting. And I think that our statistics certainly show that as far as in what property value categories foreclosures were concentrated in, they were the $50,000.

And under that category, there is no question. One of the objectives of the committee is to make sounder loans—to make better loans—and not to be making loans to families that cannot keep up those payments, and then end up with a huge debt at the end of a period during which they lose their home.

So, we think that, in fact, the 40 percent guarantee will encourage more discipline in the system. We would expect loans to be made, but just better loans.

Now, the no-bid situation is a different issue. I can see you have related it—yes.

Mr. HILL. And I think you will get better loans but you will also serve far fewer of the most needy veterans, particularly with the GPM program gone.

And even either Plan A or Plan B—we are simply seeing a widening gap of inability to reach these lower income people. Plus you then take away the mortgage backed revenue bond financing program.

And now, there is a huge, widening gap, which Senator Cranston is beginning to address. But I think you, in your multiple roles, particularly, Madam Chairwoman, need to address—we simply cannot house more and more people, and more and more of those—many of those people are veterans.

Mr. WOLFF. The underwriting process has also been changed significantly by Veterans' Administration. And you have tightened it up. I am guessing, now; I cannot tell how the foreclosures—when these loans were originated.

But previous to, let's say the last year, when the new regulations were issued, the Veterans' Administration was approving a lot of loans under whatever reasoning they had—duress, maybe attorneys from the veteran purchasers were going in there and they were being counseled prior to being approved.

And many loans that maybe we would have turned down as a lender were approved for prior approval processing at the Veterans' Administration and Underwriting.

The when we took over the task with the VA automatic process, and where we approved our own, we still went under the guidelines which really did not have anything to do with what conventional and FHA underwriting had.

It had to do with the residual income process. And that, too, is probably one of the major reasons we have more foreclosures.

It has nothing to do with the value of the property in this area right now; it has to do with their ability to make mortgage payments.

Mr. DAVIS. Would the gentlelady yield?

Miss KAPTUR. I yield to the gentleman.

Mr. DAVIS. Mr. Wolff, you talk about automatic approval and prior approval, was there a vast disparity, then, between the numbers involved?

Mr. WOLFF. Oh, certainly.

Mr. DAVIS. Did you really tighten it up with your automatic—

Mr. WOLFF. Well, as a VA automatic lender, we would probably, if we felt a particular file was in the marginal area, we would send it over to the VA and let them approve it.

So, if it ever got into foreclosure, and it was ever a question—

Mr. DAVIS. So, you laid it off your bed.

Mr. WOLFF [Continuing]. Would say, "Hey, you know what? You were just as much a part of this as we were." That is not the case anymore because the intent is that we are going to do all of the cases, not just some of them.

Mr. DAVIS. I understand your point, you answered my question. As long as I have your attention, Madam Chairman if I could just continue one second longer.

Mr. Pintaro and you apparently are at odds on appraisals. Was it not your testimony that you said that you thought the automatic lending process with in house appraisers was adequate in fulfilling all of the requirements necessary for the appraising process.

And yet, due to the packing, and points, and the other things that Mr. Pintaro talked about, you seem to be at odds with that.

Is this whose ox is being gored here? Is Mr. Pintaro defending his turf? What have we got? Or is he right?

Mr. WOLFF. FHA has allowed us, now, the opportunity to do one of two things, have our own staff appraisers or use appraisers that are on an approved list of the Federal Housing Administration.

Conventional lending has always been the case that you either had your own staff appraiser, or you could select from your own selection of appraisers who are out in the community there.

With VA, the present situation is that a person who wants to do VA appraisals goes to the VA, gets approved by them; and now we call up and we are assigned an individual appraiser.

That person has two axes to grind. One is criticism by the VA under their auditing of their own appraisals. They have to defend, and it gets down to—we do not get a practical kind of an appraisal when we are working with an assigned appraiser from VA because we cannot even discuss the appraisal with the appraiser.

We have to go back to the VA there—it is a step removed. We do much better, because of the auditing process that we deal with a private mortgage insuring company with conventional lending, or FHA's auditing, or the VA does their own audit, that we would have, I think, no worse of an appraisal, but a faster time frame if we could have our own control of the appraisal process—not what the outcome of the appraisal is.

But at least, how it is assigned—by area; by the expertise of the appraiser.

Mr. DAVIS. I yield back my time—or your time.

Miss KAPTUR. I just wanted to say that the bill that passed the House authorizes that appraisal reports can be sent directly to approved lenders for expedited review and reasonable value determinations.

So, we hope that that is a step in the right direction. I did want to mention one other thing—and ask your opinion on this—particularly you, Mr. Wolff, and perhaps Mr. Gibson. The bill that passed the House stops the accrual of interest on properties for no-bid calculation purposes where we can show that the delays are due to some VA administrative procedure, where the lender has exercised forbearance at the VA's request, and where the veteran has commenced bankruptcy proceedings.

Now, do you think that that will help in the no-bid situation, as you have experienced it here in the State of Illinois?

Mr. WOLFF. Mr. Gibson's the servicer.

Mr. GIBSON. I definitely believe so.

Miss KAPTUR. You think so.

Mr. GIBSON. Majority of our no-bids come out of Bankruptcy Court, and out of Chapter 13.

Miss KAPTUR. We got this suggestion from a mortgage banker in Houston, Mr. Jake Kamin, who has got real problems down there.

We tried to work with him very closely in improving that section of the bill. We are not sure it does completely, but we think it takes a step in the right direction.

I had another question. I wanted to ask Mr. Lasko if you see a difference—you work both with FHA and VA, correct?

Mr. LASKO. I am not sure—

Miss KAPTUR. Okay. Do you see a difference in their marketing efforts—in the way that they present their properties to the marketplace? Are there any differences that you could tell us about in the way that you have experienced it here in Illinois?

Mr. LASKO. I have been with FHA for some years, and that goes back about 5 years ago; I was a Area Management Broker for them.

And then I dripped into the VA program. And I have been doing this for about 11 years. And I think that the program that the VA had prior to the program that is in effect now was much more productive.

They had a program where properties were repaired; and they were in a saleable condition at the time that they were put up for sale, and they sold much faster.

Everybody was happy. We got our work out on time. We had people come out to make bids to repair properties. And they were repaired at the time that they were due to be repaired.

And the people that moved into these homes had a house that was liveable.

The ones that we are selling now, we are selling at the same price that the other houses are selling for in the area that these homes are located, and they are nowhere near the condition the other houses are; the conditions are absolutely abominable because

of the people that have lived there prior to losing them—they do not take care of them, as I mentioned before, in my statement.

FHA did sell them repaired at one time. The VA program is head and shoulders above the FHA program, I think—up to this point, where they have taken the money away.

Miss KAPTUR. What was the change that happened? About how long ago did it occur?

Mr. LASKO. I would say within a year or two. This program has been in effect since the inception of the Veterans' Administration program in 1944 where they did repair properties in Chicago metropolitan area.

I do not know what happened in the rest of the country. But in my opinion—cause I come from the very bottom. I am in the field, daily. And I am aware of what is happening.

And I do not have other people do the work that I am supposed to be doing. And I know that this program was effective up to the time when money was not allocated for the repair program.

Miss KAPTUR. See, we come in with our bill at the end of that process. We attach an additional loan for rehabilitation purposes onto it; but it still does not solve your problem—do not let it happen in the first place.

I guess I will have to ask the folks from the VA to comment on what changed here. Mr. Hill?

Mr. HILL. Yes, just a thought. You have been picking up some thoughts, and I have already seen them reflected in H.R. 2672.

And Mr. Perlman had the thought of renting, possibly, some of these programs. Mr. Lasko, I would love to have him comment as to whether or not there might be a role for the brokers to get in and assist VA in the deed in lieu program.

The brokers are locally there; the deed in lieu program worked very, very well.

Whether they ended up running the program, or whether they just ended up taking it over, and avoiding the run-down damage as this demoralized family lived there because they think, and they are under pressure, and all the other things that Congressman Davis pointed out.

The broker might be an option. There are a lot of legitimate people like Mr. Lasko, who really are critical to this system.

He might have another role if he were properly compensated.

Mr. LASKO. I think it could be worked out. I am not so familiar with the program as far as deed in lieu is concerned. Could that be explained a little bit?

Miss KAPTUR. You are not familiar with that program? That is where when a veteran runs into trouble on the loan—rather than having all of that debt, that liability be on his or her shoulder for ever, until the next century that the VA assumes the mortgage.

Mr. LASKO. It is a foreclosure. That is what you are speaking to.

Mr. HILL. No, it is a voluntary process that side-steps foreclosure.

Mr. LASKO. It side-steps foreclosure; it is a voluntary—I see what you are saying, yes.

Miss KAPTUR. Right.

Mr. LASKO. I think that is effective more so than when you have to evict the person from the property.

Miss KAPTUR. I was going to ask Mr. Schneider who had been up here on our first panel if he has been listening to this conversation.

If you might want to come back to the microphone and comment, because this is an issue that comes up all over the country—on what we do with these properties in order to prevent their deterioration and eventual cost to the marketplace to repair.

Mr. SCHNEIDER. Yes, Madam Chairman. What particular respect?

Miss KAPTUR. Well, both Mr. Hill and Mr. Lasko were talking about the how VA home program had changed in the last couple of years.

Years ago, I guess, the VA used to have repair money. This was before I assumed Chairmanship of the subcommittee, so I was not around back then.

Some things have changed over the last couple of years, and now these properties deteriorate. They were suggesting either a scenario where a repair program would be reinstituted, where there would be renters or some other option.

Could you comment on that series of recommendations—where you fall out on this?

Mr. SCHNEIDER. Well, of course that discontinuation of an extensive repair program was before my time with this office. But I am advised by Mr. Rogala that it was some 4 or 5 years ago that we discontinued the extensive repairs we were doing with these properties.

And it was not because we lost, or did not have funds appropriated for that purpose. We do have quite a bit of discretion at the local office, up to that $5,000 figure we talked about to repair properties where we feel that the repair costs are recapturable in the sale, and where we feel that repairs would assist us in disposing the property rapidly.

But some time ago, my predecessor, along with his staff, included that in fact the repair program we had was contra-indicatory in that we felt that we were losing the time that the property was off the market being repaired.

We were not able to dispose the property as quickly as we could. And when we did not do the repairs, we were able to dispose the properties as quickly, and with a rapid recapture of the government's investment.

And it was just decided at that time that we would tend not to do repairs to the properties to any great extent. We do put the systems back in—

Miss KAPTUR. Now years ago—so I understand the way it operated—the government held title to the property, and then during that period, it repaired the property prior to sale?

Mr. SCHNEIDER. Yes, Ma'am.

Miss KAPTUR. And now it turns it onto the market—

Mr. LASKO. Completely reversed from where it was. Complete turn-around.

Miss KAPTUR. Okay. I appreciate your coming back to the microphone. Mr. Davis, do you have any other questions of this panel?

Mr. DAVIS. Nothing other than the obvious trade-off is lower prices. And someone has to determine that judgement. And if you do have the latitude to go to 5 or even beyond, that you would chose to do that.

Have you done that? Have you gone beyond 5,000 because of the absolute deterioration of the property?

Mr. SCHNEIDER. Oh, yes. Oh, yes.

Mr. DAVIS. You have? So, there are exceptions to that, is that correct?

Mr. SCHNEIDER. Oh, yes. Yes, sir. Yes.

Mr. DAVIS. Okay. Well, that is what I was curious about—because the obvious trade-off is lower prices on the market place, and a very lower select group—I do not mean that in the pejorative sense—but a smaller select group of buyers who are into distressed properties that need a great deal of care and expense, and know what they are doing about it.

And that is the trade-off, is it not?

Mr. SCHNEIDER. Yes, sir. I would reiterate, however, that we have been successful—

Mr. DAVIS. Has there ever been a comparison done—excuse me, Mr. Hill--a comparison or a study done which would be available in the VA?

A comparison between the trade-off and much, much lower dollars for distressed property versus some kind of control group of homes that have been fixed and sold?

It would be interesting to do that.

Mr. SCHNEIDER. I am not familiar with the formal study done on that. However, as I indicated previously, we have been successful in disposing of our properties, and our average loss per property is comparable to the Nations's figures.

Mr. DAVIS. Is that right?

Mr. SCHNEIDER. And that is about 14,700—something along those lines. So, our finding is that when we discontinue this extensive repair program we talked about, we do not experience sizable losses in our sales.

In fact, we are able to increase the sales.

Mr. DAVIS. We just might look at that, doing a comparison study on some large group of comparable homes in two comparable sections of the country.

Fixing one group up and seeing what that return is, and after some fairly good appraising done on both sides what the loss is on distressing out homes with similar problems.

Miss KAPTUR. You know, Congressman Davis, I have to say this because I have said it in every community across this country that we go into. What has amazed me about this VA Home Loan Guarantee Program, since it was created after the second world war, is that 12 million American families have been afforded housing. There is an average portfolio value in any given year of $22 billion.

When I became Chair of this subcommittee I said, "Well, what are we going to do?" I thought I had better find out about everything that had been written on the VA housing program. So I went to the Library of Congress and get every dissertation that has ever been written on the subject of the VA housing assuming that there must be at least 10 since 1950.

I was going to become the housing expert on the VA housing program. Nothing.

Mr. DAVIS. Zero.

Miss KAPTUR. Has ever been written. There is very little analysis. I was absolutely floored at how little we know about this program.

And yet we have 40 plus years of history, and 12 million families out there. In fact, I had even considered putting money in the bill to fund Ph.D. dissertations on a discreet number of topics that we could look at.

But I was just amazed at how little information is really out there on this program. You try to find it and it is not there. The only thing I can figure is that for years it functioned purely as a guaranteed program.

Therefore, it was almost two steps away from—you talk about the grass-roots. I mean, this was out there in the financial world, with mortgage bankers. How many Americans ever meet a mortgage banker?

They probably meet somebody from the homebuilders before they meet somebody from the Mortgage Bankers Association. So it is really not a very well known program, right?

It is a financing instrument—compared to a HUD program. Lots of people know HUD programs. I sit on the HUD Committee, too. You are more likely to bump into someone through the city government or something, dealing with a HUD program.

But it is just amazing how little thought we have given to this program over the years as a Nation, or the importance that it has had.

That is one reason we do not have an answer to the question.

Mr. DAVIS. With all due respect to Mr.'s Hill, Wolff, and Mr. Gibson—not many people want to be the mortgage banker.

Mr. HILL. I am not a mortgage banker.

Miss KAPTUR. No, no. He is a homebuilder.

Mr. DAVIS. That is right. I apologize.

Mr. HILL. I second your motion.

Miss KAPTUR. All right, gentlemen. Did anyone else have anything they wanted to enter into the record officially here?

[No response]

We thank you very much for your time, and for your testimony before the committee.

The next panel we would like to call up is panel 3. Ms. Diane Nilan, Development Director of Catholic Charities for Joliet; Mr. John Johnston, Director of the State of Illinois, Department of Veterans' Affairs; and Mr. Robert Mitchler, former State senator from Oswego, Illinois.

Ms. Nilan, and gentlemen, we are very happy to have you before the subcommittee this afternoon and are most anxious to hear your testimony.

Ms. Nilan, when you are ready, you are our first batter up, here, on the third panel.

STATEMENT OF DIANE NILAN, DEVELOPMENT DIRECTOR, CATHOLIC CHARITIES OF JOLIET, ILLINOIS

Ms. NILAN. Thank you. I am very pleased to be here this afternoon, and address the problem of homelessness as we as a social

service agency have been dealing with it over the past several years.

Our agency is, we are the diocese of Joliet, which is a seven county area surrounding Chicago. And it is comprised of DuPage, Kendall, Will, Grundy, Kankakee, Ford, and Iraque county.

So, that is to give you an idea. I do not know how far you have travelled through this area. But there is a variety from the affluent DuPage county, which is supposed to be the tenth most affluent county in the country.

Miss KAPTUR. I think it is the fastest growing county in America, isn't it?

Ms. NILAN. That is true. All the way down to Ford and Iraque county that have a large rural population. I work in the Joliet office, but we do have three offices that serve these counties.

And we do attempt to serve all seven counties. The problem of homelessness for some people—and I am going to—I think you have got some notes there on homelessness that were just distributed.

For your information, this is somewhat of a summary of my report that I have submitted earlier. The homeless problem does not lend itself just to the Will county area.

Much to most people's surprise, DuPage county has a large homeless population. And we have been very active in DuPage county in a public housing shelter for the homeless.

That has been in operation for 2 or 3 years. And this is a program which we are possibly able to replicate here in the Will county area; this is just pending for this year.

But there are some very serious problems when it comes to homelessness. And I would like to just point some of those out.

First of all, as we see the five groupings for the homeless population, we tend to be deinstitutionalized mental health patients, which would be approximately 15 percent of the given homeless population.

Single parents with children, which would mainly be females, would make up about 40 percent of the population; abuse victims with or without children, again, mostly female, add about 10 percent of the population; the entire family unit being homeless would make up about 25 percent of the population; and single adults, male or female, would be 10 percent of the population—and they would be ones that would not exhibit any severe mental impairments.

The problems of the homeless population, I did outline on there, and I will just briefly hit it—the mental health patients, it is a special area all of itself that needs to be dealt with, and it is not being dealt with in our community.

These people are very unstable; problems within the community. And there is very little being done for these people.

They are very difficult to deal with, especially for an agency such as ours that is limited in staffing and resources. The single parents with children—these are people that we are finding that are sleeping on the streets more and more.

I mean, I have five calls a day on an average for people who need housing assistance, and many of those are the single parents with children.

And I will mention a couple of problems in that group.

Miss KAPTUR. Excuse me. Do those tend to be headed by women?

Ms. NILAN. Women, right. Okay. The abuse victims, we do not deal a lot with, except when the local shelters that handle the abused women are overflowing, and we will assist those people who are homeless, again, there.

We are also finding an alarming number of entire family units that are either unemployed or underemployed, that have lost all their possessions, and they have lost, most importantly, their dignity.

And they have a terribly unstable environment for a family situation. The single adults would be categorized with problems, possibly alcohol and drug related problems.

They may be recovering alcoholics or drug addicts, but they are considered unemployable, and mostly ineligible for assistance.

I mean that most of the group would be ineligible. As far as the medical and mental health care available, there is limited mental health care for the mental health patients; the release patients.

And I would stress the word 'very' limited; we have not received much cooperation because the agencies that deal with these people are definitely underfunded and understaffed, at wit's end.

So, medical care—again, there is a very limited source, a resource here form medical care for this group.

The single parents with children normally would qualify for public aid benefits, which would include the medical card—the green card. So, they have something available to them.

The abuse victims, again, have some assistance available for counseling, and they may or may not be qualified for medical assistance.

The entire family unit usually has no medical assistance. They may be some of the people that were talked about earlier that have undergone foreclosure; and they have related problems there.

They usually have lost everything. They may have lost a job, and had some medical problems after that with no health insurance.

And they have totally lost everything that they have. And there is very limited, affordable counseling for that too. The single male or female that has a drug or alcohol problem, or past problem they may qualify for a green card.

I hear my seconds ticking away here. I do want to address a couple of points. And I would ask that you take time later on to look over the options available here for the homeless people.

At the federal level, I am pleased to be a possible recipient, our agency of the Stuart McKinley Homelessness Act Funding.

And there is money there. I would ask that the people in your position would be able to expedite something. As far as the SSI benefits, and overseeing that program.

That seems to be a major cause of a delay with the people that are homeless. The reason why they are homeless because they do not get their benefits for up to—I am aware of—somebody for 3 years waiting for benefits that they are actually entitled to.

And this is red tape galore. Another problem that I will quickly address—HUD oversees our housing authority in Will County.

I know we are not unique in this area, but there is a large number of units in the HUD operated buildings—the housing au-

thority buildings—that are occupied by people who could be affording rents on the private market, but they had chosen, for some reason, to stay within the housing authority unit which eliminates the option that we would have of moving some people that are homeless into housing authority units.

There is a 5 year waiting list for people who come to us for needs of housing. And this is sometimes the only housing that people can afford when they are receiving two or three hundred dollar monthly benefits.

So, that plug right there is just causing a tremendous amount of problems.

So, that is one area I would like to just call to your attention. And since I am out of time, I will yield. Thank you.

[The prepared statement of Ms. Nilan appears at p. 96.]

Miss KAPTUR. All right. Thank you very much. I'm trying to find my agenda here. I always seem to lose the agenda midway in the hearing.

Oh, here we go. Mr. Johnston?

STATEMENT OF JOHN JOHNSTON, DIRECTOR, STATE OF ILLINOIS DEPARTMENT OF VETERANS' AFFAIRS

Mr. JOHNSTON. Madam Chairperson, Congressman Davis, I would like to address the need for the national cemetery in the Chicago area.

There are approximately 1,300,000 Illinois veterans with almost 265,000 of these veterans 65 years of age or older. Illinois currently has six national cemeteries in Alton, Springfield, Danville, Mamd City, Quincy and Rock Island, but none in the area of the northeastern part of our State, where some 800,000 of our veterans reside.

It is the choice of many who have served our republic to be in turned with other expired veterans. The gathering of deceased veterans in a resting place that provides that special recognition deserved of each and all is the national cemetery.

Not only are the departed veterans recognized by the location, but the visit of their families and friends to the resting places is perhaps the most important recognition of all that should be afforded.

With such a large concentration of Illinois veterans in the Chicago area, and the age of the Illinois veteran population, which is currently at an average of 53 years of age, a new Illinois national cemetery is required.

The desire of families and friends to visit the resting places of the veteran should not be impeded by the need of traveling long distances.

The Department of Veterans' Affairs supports this national cemetery in the northeastern part of Illinois' location. And we would like to say that Illinois needs the cemetery, and Illinois veterans deserve the cemetery.

Thank you.

[The prepared statement of Mr. Johnston appears at p. 106.]

Miss KAPTUR. Thank you very much, Mr. Johnston, Mr. Mitchler?

STATEMENT OF ROBERT W. MITCHLER, LEGISLATIVE LIAISON FOR ILLINOIS DEPARTMENT OF VETERANS AFFAIRS, AND FORMER STATE SENATOR, OSWEGO, ILLINOIS

Mr. MITCHLER. Thank you, Madam Chairwoman, and my close friend, former associate there in the Illinois General Assembly, Congressman Jack Davis.

My name is Robert W. Mitchler and I reside in Oswego, Illinois, Kendall county, adjacent to Will county. I am a navy veteran of World War II, and the Korean war, November 1941 to February 1952.

And I served as an Illinois State senator from 1965 to 1981. And upon my retirement, started serving as legislative liaison for the Illinois Department of Veterans' Affairs, a position I now hold.

I am a life member of the American Legion, the Veterans of Foreign Wars of the United States, and the American Veterans of World War II, Korea, and Vietnam, known as AMVETS,

I am also a member of the La Societe des Quarante Hommes et Huit Chevaux, and I have actively served in these veterans' organizations at the local, State, and national level since 1946.

I also have been active in the Navy League of the United States, a civilian organization supporting our sea services. And since 1965, I currently am serving as a National Director and President of the Great Lakes Region, which includes Wisconsin, Illinois, Indiana and Michigan.

During my 16 year service in the Illinois State senate, I was involved in all legislation related to our veterans. It is, therefore, personal satisfaction to have the State of Illinois rank highest in providing benefits to our veterans and their dependents.

I have enjoyed a continuing relationship with the members of the Illinois General Assembly, and am proud to report a continued commitment by them to provide the very best in service and benefits to our Illinois citizens who earned special recognition for their military service.

Illinois has approximately 1.3 million veterans. We are proud to report to this Congressional Committee the satisfaction we have in providing veteran services and benefits, both in the federal and State governments.

With respect to the need for additional national cemeteries in the State of Illinois, I speak loud and clear for a consideration of establishing a new Veterans' Administration national cemetery in Illinois, to be located in Will county, Illinois.

Not only is federal property available for establishing a new national veterans' cemetery in Will county, Illinois, but the concentration of veterans' population in the northeastern section of the State of Illinois lends to the favorable consideration of the development of this national veterans' cemetery to serve that veterans population.

Veterans' Administration national cemeteries in Illinois are at Alton, Springfield, Danville, Mound City, Quincy, and Rock Island.

All of these cemeteries are rapidly filling, as we are called upon to bury our older veterans from World War I, World War II, and the Korean war.

And several years from now, we will be confronted with an increase in burials from our Vietnam war and post-Vietnam war veterans.

Illinois has an excellent transportation facility in the Will county area, which is important in providing access to our national veterans cemetery.

This would reduce the long distances required for families of deceased veterans to travel to national veterans cemeteries now located in areas that we refer to as downstate Illinois.

Illinois has long been proud of our active veterans' organizations located in our communities, and they stand ready to serve in the burial details, and will provide the dignity and honor earned by our veterans when laid to rest in the national veterans' cemetery located in Will county, Illinois.

I appreciate the opportunity to present this brief testimony to this congressional committee, and give strong support for your favorable consideration and recommendation to members of Congress for developing and establishing a national veterans' cemetery in Will county, Illinois.

Thank you, very much.

[The prepared statement of Mr. Mitchler appears at p. 108.]

Miss KAPTUR. Thank you very much. Mr. Mitchler, do you know why veterans of this area do not appear to be using the regional cemetery at Fort Custer in Michigan?

Mr. MITCHLER. That I could not give you a direct answer to, other than to say when they are in one State they more or less, when contacting the Department of Veterans' Affairs, we would refer them to the cemeteries in our State, which are primarily downstate, and they probably do not have the knowledge of national cemeteries over into Michigan.

Michigan is separated by Lake Michigan, and really, we have no terminus affiliation with Michigan, as such, during our normal life period—other than maybe slip over there for a vacation period, and they in turn come back to Illinois.

We would be more likely to consider Iowa or Wisconsin, and possibly Indiana than considering Michigan.

Miss KAPTUR. I have to tell you that even the veterans from my home community of Toledo, Ohio, which is much closer to Battle Creek, Michigan than you are, do not really use Fort Custer, which is supposed to be our regional cemetery.

Miss KAPTUR. We bury an average of only 10 Ohioans a year in Fort Custer.

Mr. DAVIS. It is better, though.

Miss KAPTUR. I know, and I think the cemetery has the capacity for something like 462,000 veterans. I mean, we do not identify with Michigan, the same way as you.

Are you aware, sir, of any locations here in Illinois where veteran cemeteries are located adjacent to national or State park systems?

Mr. MITCHLER. Not directly adjacent to our park systems that we have established. As I have pointed out and listed the locations of the current national cemeteries in Illinois that are all downstate, Mound City is probably near an area that is used extensively for parks, but is a very rocky and more or less different than the area

that we have here—the flatland of the central and northern part of the State of Illinois.

That would be the same over in Quincy and Rock Island areas, and Danville, and Springfield, as well as Alton.

Miss KAPTUR. Mr. Johnston, I think you stated that eligibility at the Manteno Veterans' Cemetery is restricted to residents—

Mr. JOHNSTON. Yes, Ma'am.

Miss KAPTUR[Continuing]. Of the home. Now, if the eligibility were expanded to include any veteran residents of Illinois, the cemetery could apply for funding under VA State Cemetery Grants Program.

These 50-percent funds can be applied to construction improvement projects at State cemeteries. Do you know if anyone here in Illinois has ever considered that for that particular site?

Mr. JOHNSTON. Not to my knowledge.

Miss KAPTUR. Okay. Finally, Ms. Nilan, my last question to you has to do with the proposal that you may have heard about earlier where, under our new housing bill that passed the House and which we still have to get the Senate to agree to, we would provide the authority for the VA tc transfer properties to local housing groups, city governments, community organizations at a discount and then use those for housing homeless veterans.

Do you think local organizations here have the capacity to participate in such a program if we were to set it in place at the national level?

Ms. NILAN. I am a part of such a local organization, the Joliet Housing Initiatives, which is a program underneath Catholic Charities.

Ant this is one of the issues that we are trying to address, would be utilizing some of the existing housing stack for people that are homeless, or, you know, on the fringe of being homeless.

I do believe, if this was a possibility that we could some how pull off the funding necessary to obtain the properties, rehab them, and then turn around and turn them over to a homeless VA family.

Miss KAPTUR. One of the statistics I think that is important is that we estimate nationally that upwards of 40 percent of those individuals who are homeless are veterans.

Your figures do not indicate that; but of course, you are probably extracting from the Dekalb, or DuPage county experience?

Ms. NILAN. No. These would be, mostly, our Will count y experience. And we have not made any kin of a study on the veterans that are in the program.

Miss KAPTUR. The lady I mentioned earlier, Annie Polk, whom we met with this morning from the Hines Medical Center, is the individual charged with administering the homeless program under the bill that we passed at the federal level.

The Veteran's Administration did receive several million dollars, and Hines Medical Center got $125,000 of that. They are now implementing a program. That lady is extremely capable.

Their figures show that of the shelters they have been through, and they went through several already, 48 percent of those individuals identified were veterans.

They tend to be people who have been admitted and discharged several times from that medical center. With the psychiatric unit

being phased out and rebuilt in a new building, they will have several buildings that are available on site.

Therefore, because you are in the general area, you may want to meet with that person in the same way as I suggested to the gentleman from the VA, because you have a natural ally. A very large population is moving around and really lacks housing.

Ms. NILAN. Right.

Miss KAPTUR. I think that was my last question to you. Mr. Davis, do you have any questions of the witnesses?

Mr. DAVIS. Yes. Thank you very much. Ms. Nilan, we are very cognizant, both the Chairman and I of the problems, in general, of the homeless.

And I think you are a great advocate of your cause. Can you tell me if this sheet of statistical information that you gave to us can be projected to the general population, or is this just your experience here in Will county?

Ms. NILAN. This is an estimate of the population in Will count that we have been dealing with, but in talking with people from other agencies and other counties, I would say, generally, these figures would be more or less applicable.

Mr. DAVIS. Both the Chairman and I are astonished at the low percentage of the institutionalized mentally ill. When I was in the State government, we constantly wrestled with the problem that we had created back in the 60's by massive deinstitutionalization, which of course is still continuing.

And it seems to me that—I am just astonished. I thought that you would have 50 percent in that category.

Ms. NILAN. Well, just through the one program. Then we have—you have gotten statistics on the Operation Refuge program which has been in operation for a year. This would be a limited source of information that we have from our intake sheets on the clients.

So, we are just estimating, based on contact that we have with these people as this may come up. So, sometimes it does not come up in our contact.

Mr. DAVIS. For the edification of Congresswoman Kaptur, the Joliet Diocese is in the area of the six or seven counties that she described.

It is the second largest in Illinois, with Chicago being the largest Diocese in America. So, it is very, very large; very large Catholic area here.

And Catholic Charities does an outstanding job.

Ms. NILAN. Thank you.

Mr. DAVIS. I can say that to you Ms. Nilan. Let me suggest to you that during your intake procedure, in the Diocese, that you put a veteran's box on because this area is going to get a lot more address from this particular subcommittee and our committee.

And I think there will be more funds flowing through whatever channel that we decide is the best channel, whether it be through Colonel Johnston's agency, or directly to you by application.

And you are going to have to have something available.

Ms. NILAN. We acknowledge that and the upcoming plans that we have for a shelter for the homeless would include some more detailed intake information.

Mr. DAVIS. And you should be mindful of what Congresswoman Kaptur said about the housing that will now be available on our pilot programs, of turning over those kinds of facilities that are in inventory directly, and letting Catholic Charities, or whomsoever, or veterans' groups rebuild them for the benefit of the veteran homeless.

And of course, that has to be our thrust, as you must understand.

Ms. NILAN. Right. Yes.

Mr. DAVIS. Thank you for appearing.

Ms. NILAN. Thank you.

Mr. DAVIS. Senator Mitchler, old friend, how are you?

Mr. MITCHLER. Very good, sir.

Mr. DAVIS. You are obviously no stranger to congressional or senatorial representative hearings. Your testimony, as usual, was cogent, right to the point and very well done.

You are a great friend and a veteran. And I would just hate to pay your dues to all the veterans' organizations to which you belong.

But I congratulate you. Thank you for coming today.

Colonel Johnston, old friend. Another one—loaded them up with old friends today. Colonel Johnston, you are a credit to the Illinois Department of Veterans' Affairs.

And I congratulate you on the job you have done in the brief time you have held the department, in these days of Illinois declining budgets.

I know it is not easy to deliver the kind of services of which you speak. I would suggest to you that you follow up on the Chair's suggestion about the Manteno facility which is, I think, smaller than the VA requires, in terms of acreage, for a cemetery setting.

However, State matching grants are available, and most States do not avail themselves of that. I think maybe it is because they do not want the on-going burden after they get involved.

But nevertheless, I think the State of Illinois has always been a leader in veterans' programs, and a few more of those kinds of activities would relive the whole system and could be developed and on line a lot quicker than we have heard today of the financial summary.

But thank you for your support.

Mr. JOHNSTON. Thank you.

Miss KAPTUR. Thank you, Ms. Nilan and gentlemen for coming here today.

Our final panel: Mr. Ray R. Soden, Past Commander-In-Chief, Veterans of Foreign Wars; Mr. Thomas A. Duncan, Jr., Executive Director, Paralyzed Veterans Of America, South Holland, Illinois; Mr. Dennis Guernsey, Junior Past Department Commander and Legislative Director, Disabled American Veterans, Chicago, Illinois.

Next, Chief Petty Officer Harvey Vanmeter, Chapter Chairman, Non-Commissioned Officers Association, Zion, Illinois; and finally, Mr. John F. Cryan, State Director of Veterans' Affairs and Rehabilitation, Department of Illinois, accompanied by Mr. Paul Briesi, Post Commander from the American Legion.

Mr. Cryan is from Chicago, Illinois; Mr. Briesi is from Joliet, Illinois.

Mr. Soden, I believe that we will begin with the Veterans of Foreign Wars this afternoon.

STATEMENT OF RAY R. SODEN, PAST COMMANDER-IN-CHIEF, VETERANS OF FOREIGN WARS

Mr. SODEN. Thank you, Madam Chairwoman, and members of the subcommittee. Congressman Davis, I am sure you have already, but I would like to welcome the Chairwoman to the land of Lincoln, sir.

Miss KAPTUR. We are proud to be here today.

Mr. SODEN. I want to thank you for this opportunity to present the views of the Veterans of Foreign Wars with respect to the Veterans' Administrations' National Cemetery System, and its ability to meet the growing needs of veterans in the Chicago area.

My name is Ray Soden, and it was my distinct honor to be the 1973–74 National Commander-in-Chief of the Veterans of Foreign Wars.

I also had the privilege of serving as the 1964–65 Illinois VFW State Commander, and was the First President of the Combined Veterans of the United States of America, and presently serving as a Commissioner in the DuPage county board.

At the outset, I would like to commend this subcommittee for its continuing concern for our Nation's veterans. Your decision to hold this field hearing in Chicago clearly demonstrates a commitment to discover first hand what problems face the veteran and his family in a particular region, and how they best may be served.

As you know, Chicago lies within the standard Federal B Region 5. The national cemetery for Region 5 is Custer Regional Cemetery in Michigan, which is approximately 150 miles from Chicago.

While Illinois does have six national cemeteries, one, Alton, is closed. Another, Rock Island, is scheduled to close in 1994, and the remaining four are all due to close within 50 years.

There are two significant facts we must keep in mind when considering the Chicago area's need for a national cemetery.

Currently, there is no open national cemetery within a reasonable distance of the Chicago area, and a potential number of veterans in seeking interment in a national cemetery is increasing.

According to the VA., there are approximately 780,000 veterans living within the primary service area of Chicago—a 50 mile radius.

And about 295,000 veterans living within the secondary service area 100 mile radius. It is also estimated that 900,000 spouses and dependent children of veterans live within these two areas.

Madam Chairwoman, over one million veterans live in the Chicago area with almost an equal number of dependents who may be eligible.

This totals around 2 million individuals. It should also be noted that the VA has acknowledged a need for a VA national cemetery in the Chicago area.

Chicago ranks number one on its list of the 10 geographic areas in the United States in which the need for burial space for veterans is the greatest.

Madam Chairwoman, I believe that there could be no doubt that the Chicago area is in need of a national cemetery, and in fact, is the area which could best be served the greatest number of veterans.

We look forward to working with the Congress, and the Veteran's Administration in seeing this potential solution turned into a reality.

Once again, I wish to thank the subcommittee for coming to Illinois, and allowing the VFWs to be part of this hearing.

[The prepared statement of Mr. Soden appears at p. 110.]

Miss KAPTUR. Thank you, Mr. Soden, very much. Mr. Guernsey.

STATEMENT OF DENNIS GUERNSEY, JUNIOR PAST DEPARTMENT COMMANDER AND LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS, SPRINGFIELD, ILLINOIS

Mr. GUERNSEY. Madam Chairwoman, and Congressman Davis, on behalf of the more than 27,000 members of the Disabled American Veterans Department of Illinois, and its Auxiliary, may I say how very much we appreciate the invitation today to express our views on the Veterans' Administration's Home Loan Guarantee Program, and the VA's National Cemetery System.

Madam Chairwoman, welcome to Illinois. The DAV wishes to strongly commend you on the leadership role you have taken with respect to the VA's Home Loan Guarantee Program. Approval by the Full House of H.R. 2672 adequately demonstrates your toils. I hope House passage of this measure is as rewarding to you, the author, as it is to us, the beneficiaries of the provisions. Also, we welcome your oversight responsibilities with regard to the VA's National Cemetery System. And finally, I extend a hello to you from Rick Heilman, who is the DAV's National Legislative Director in Washington D.C.

Congressman Davis, I commend you on your performance in the U.S. House of Representatives, and especially as a member of the Committee on Veterans' Affairs. As an aside, let me say that I recall your days in the General Assembly, and your support for Veterans' programs. And after monitoring the activities there recently, you probably do not miss answering that roll call any more.

We applaud you for inviting the Congresswoman from the Buckeye State to the Land of Lincoln, and the 4th Congressional District of Illinois. It is indeed interesting to note that the gentleman from Illinois and the Congresswoman from Ohio serve opposite sides of the aisle in Congress. It signals to me that the distinguished lawmakers here today view veterans' issues as bipartisan issues, which indeed they are.

Madam Chairwoman, for the purposes of this oral presentation, allow me to State briefly that the Disabled American Veterans of Illinois strongly endorses the VA housing reforms as provided in H.R. 2672. There can be no doubt that the VA Home Loan Guarantee Program has been, and continues to be a strong investment in America. Since the program's genesis more than 4 decades ago, about 12 million veterans nationwide have obtained VA-backed mortgage assistance totalling more than $250 billion. The program

has added stability, and expanded the tax base of nearly every community in the country.

The Illinois DAV shares the concern that the VA Home Loan Guarantee Program continues to experience unacceptably high rates of foreclosure, and we will address those concerns and suggest some possible solutions as part of our appearance here today.

Congressman Davis, as you know, Illinois has a special identity with the VA's National Cemetery System. It was our own Abraham Lincoln, who as President in 1862, signed legislation that authorized the establishment of national cemeteries for, and I quote, "soldiers who shall die in service of the country," end quote.

Of the 110 national cemeteries operated by the Veterans' Administration in 38 States and Puerto Rico, 45 are closed, including the Alton National Cemetery located 250 miles southwest on Illinois' western border. An additional 21 national cemeteries are set for closure between now and the turn of the century. Among those nearing capacity interments, we are especially concerned about the Rock Island National Cemetery, some 143 miles due west, on the western Illinois border; and Wood National Cemetery, some 137 miles north on the Zablocki VA Medical Center grounds at Milwaukee, Wisconsin. It is estimated that Rock Island will close in 1994; Wood will follow suit only 3 years later, in 1997.

By the turn of the century, all future interment of veterans and their dependents from this densely populated area may necessarily fall on the Danville National Cemetery, some 115 miles southeast on Illinois' eastern border, thereby advancing Danville's expected closure date.

Madam Chairwoman and Congressman Davis, allow me to State again very briefly that the Disabled American Veterans Department of Illinois highly embraces the construction of a new national cemetery in northeastern Illinois.

The rationale for our support of construction of a new national cemetery will be amplified for the record of this hearing. Our rationale will surround the statement of Administrator of Veterans' Affairs, Thomas K. Turnage, who said, and I quote, "The VA National Cemetery System is a testament to our Nation's gratitude for the sacrifice of the many Americans who answered their country's call to arms. "By providing their final resting places, we honor their memory, and express our everlasting gratitude for their dedication and unselfishness," end of quote.

In yielding to the suggested 5 minutes which I have just extended, I would just like to say thank you for letting us express our opinions today. I have delivered to your staff our written statement.

Thank you very much.

[The prepared statement of Mr. Guernsey appears at p. 113.]

Miss KAPTUR. Thank you, Mr. Guernsey, for excellent testimony. We appreciate your kind remarks. Mr. Vanmeter?

STATEMENT OF NEIL VANMETER, CHAIRMAN, NCOA, CHAPTER 992, GREAT LAKES, ILLINOIS

Mr. VANMETER. Yes, Lady Chairwoman and Mr. Davis. I am Harvey Neil Vanmeter; I am a Chief Petty Officer with the United States Navy with 17 years of continuous active duty service.

I am also the Chapter Chairman for the Great Lakes Chapter 992, Great Lakes, Illinois. I would like to thank you for this opportunity to testify at this hearing.

Great Lakes Chapter of the NCOA is in agreement and supports the NCOA's positions on the VA Home Loan Guarantee Program, and then the VA National Cemetery System in general and in detail, as stated in the letters of Charles R. Jackson and Richard W. Johnson.

Folks, my testimony will be in regard to the VA home guarantee program. NCOA was asked to comment on program-wide issues concerning the VA home loan.

These comments are contained in sections of a letter written by Richard W. Johnson, dated 17 June 1987. Among other things, Mr. Johnson pointed out the short-comings of the VA's procedures for dealing with veterans potentially or actually in default on their loans.

He characterized this as the most significant short-fall of the entire home loan program.

As I see it, the problem is the default foreclosure rates, being by some estimates as much as four times as high as 10 years ago.

Houses may be more expensive today, and it may be more difficult to acquire, but once you have a house, losing it is a personal and financial disaster.

In today's housing market, the veteran is seen as an easy sell by real estate agents and brokers whose principal concern is not the well being of the veteran.

The main reason that veterans are good prospects for real estates purchases is the qualifying ceiling on VA loans is much higher than FHA or conventional mortgages, plus the added advantage of no down-payment.

We believe the no down-payment aspect is a major benefit for the veteran. But the high qualifying ceiling makes it easy for some to over-commit themselves financially.

I believe this to be one of the major contributing factors to the high default rate on VA loans. It would be in the interest of all parties involved if the qualified restrictions and applicant screenings for VA loans were tightened up so as to prevent the veteran from over-extending himself financially.

The NCOA has also made a number of recommendations concerning the reduction of the default rate, which we support. However, I feel that the matter of counseling was sold short.

According to Mr. Johnson, as I said previously, the lack of assistance to veterans in danger of default is the most significant shortcoming of the home loan program.

To limit such a program to the distribution of a few brief pamphlets, or even answering a few questions is simply not enough.

In purchasing the house, the veteran has plenty of help. But when he is seriously compromised, almost no one will talk to him.

A more aggressive counseling program that will get to the veteran earlier, and not only inform him of all of his options, but actively work with him to find and implement solutions to alleviate the problem would be vastly more effective than some sterile list of options in a pamphlet.

Such a program would also identify early on cases for which there is no cure. Here, we agree with the NCOA that extended foreburns can only delay the inevitable, causing more harm to everyone involved.

There are any number of organizations which specialize in providing debt assistance to individuals in a very effective way.

If the were to provide such a program, it should probably be a separate function from the normal operations. I have not made a light study of these problems, but it is difficult to believe that such a program would not be cost-effective.

There must be an enormous cost in having this high of a default rate. A serious, aggressive, separate program should more than pay for itself.

H.R. 2672 appears to be a definite improvement in finding a long term solution to some of the problems, instead of short term fix. And incorporating my suggestions would be another step in the right direction.

And I would also like to add that I think that the ARM program should be handled with care; it is dangerous. It is giving the real estate broker another weapon to use against the veteran.

[The prepared statement of Mr. VanMeter appears at p. 116.]

Miss KAPTUR. Thank you very much, Mr. Vanmeter.

Mr. VANMETER. Thank you.

Miss KAPTUR. And finally, Mr. Cryan, and is it Mr. Breesi or Bry-eesi?

Mr. BRIESI. Breesi.

Miss KAPTUR. Mr. Briesi, all right. Mr. Cryan?

STATEMENT OF JOHN F. CRYAN, STATE DIRECTOR OF VETERANS' AFFAIRS AND REHABILITATION DEPARTMENT, THE AMERICAN LEGION, CHICAGO, ILLINOIS

Mr. CRYAN. Thank you Congresswoman Kaptur and Congressman Davis. Both I and the Department of Illinois American Legion and its 160,000 members, we thank you for letting us appear here today.

And thank Congressman Davis for having you come into town. And like the rest, we welcome you to Illinois.

To save a little time, and hopefully we will get out of here before the parakeets arrive—you have our statement from Illinois. Our statement is basically the same as our national.

We have some reservations in the program—especially, in the loan guarantee program, in the fee, the one percent. We would like to see that die a natural death at September 30th, and not come back. But if it does, we would like to see it kept at the one percent and not the 2.5 percent.

We feel that this hurts the younger veteran that is trying to buy a home. And we did put in our statement two resolutions we passed at a national convention.

I would just like to read one of them to you, and then another couple of comments, and I will be done. Whereas the VA Home Loan Program is a benefit available to veterans who served their country honorably has provided nearly 12 million veterans with the opportunity to own their own homes, and because of the change in economic conditions, and the very volatile nature of the real estate market, many hundreds of thousands of Vietnam veterans have been unable to purchase their first homes.

And the home loan program has operated successfully under the Veterans' Administration since 1944, and has acted as a model for similar programs and from the time of its initiatives are made in the home loan program that would dilute the intent of the home loan program and make it more difficult for the veterans to obtain a VA guaranteed home loan.

And at the American Legion—at their convention—supports the home loan program for veterans and the Veterans' Administration, and opposes any home loan programs for regulations and legislations that would make it difficult for veterans to buy homes, including impositions of any users fee.

And the American Legion supports legislation to exempt the VA home loan credit limits from the requirements of the Gramm-Rudman-Hollings legislation.

And I know that our national has appeared before you. And like I said, basically, our program here is the same; we follow their policies.

On the cemetery, we would go along with Congressman Davis; we would love to see it down here. Something was mentioned about Fort Custer—and in the city of Chicago, many of the indigent veterans that do pass away, or they pass away in the VA facilities are buried up in Woods, Wisconsin and some of the local cemeteries.

There are a number of service organizations that do have plots in various cemeteries in the Chicago area which they will offer to the service organizations to bury these veterans.

So it is a needed program here in Illinois. And I would just like to say to Congressman Davis that the American Legion Department of Illinois will give you any backing necessary to try to bring the cemetery within the Joliet region.

And again, welcome to Illinois. And thank you for time to appear. If Mr. Briesi would like to say something.

Mr. BRIESI. I would only like to make the record clear that I am a past State Commander—I was a Post Commander also, but last a past State Commander, and now serve the American Legion as an Alternate NEC man at the national level.

Madam Chairman, welcome to Illinois, and especially to Joliet. Congressman Davis, we will welcome you back here now and then when you come back.

[The prepared statement of Mr. Cryan appears at p. 118.]

Mr. DAVIS. Every weekend. Paul.

STATEMENT OF PAUL E. BRIESE, ALTERNATE NATIONAL EXECUTIVE COMMITTEEMAN, THE AMERICAN LEGION, DEPARTMENT OF ILLINOIS

Mr. BRIESI. It is nice to be the last one on the program because—he just reminded me, he said hurry up, the birds are coming.

I just want to say that we, as American Legion and as veterans will help you in any way you can. If when we see that you are working for us, we will make your job easier by helping you.

And with that, I thank you for allowing us to appear. I know we are very close to our time. And if you have any questions, we will be glad to answer them for you.

Miss KAPTUR. All right. Thank all of you gentlemen very much. And I wanted to say to all of you representing your respective service organizations; and I am sure that Jack would agree with the statement that—first to thank you for the service that you render.

You do not get paid for it, and you helped thousands and thousands of veterans cumulatively. I think I have to say also that it is a pleasure to serve on this committee in Congress.

The Veterans' Affairs Committee has got to be one of the most wonderful opportunities any of us have to serve our country.

And what makes it such a pleasure is that we have the opportunity to meet people like you throughout the country. And the service organizations have been marvelous at the Washington level.

Whenever we go into a community, we are welcome. We are provided with good information; with assistance. And I hope you know what an impact you truly have on legislation.

Now we just had the American Legion in this past week; the Veterans of Foreign Wars come in on a regular basis; the Noncommissioned Officers Association; the DAV; the paralyzed veterans; the AMVETS; the Vietnam veterans—these organizations come before us.

And they give us their views. And somehow we all reach agreement, and it becomes the law of the land. I can tell you other committees that I serve on that sputter around for months and years and never seem to do much of anything.

But this committee truly is an exception, and it is because of you. And it is because of your willingness to work together to serve the veteran; that is our primary objective.

So, I first wanted to thank you, not only for being here, but for serving the veterans of your respective States and communities.

I think it is a national story that needs to be talked more about.

As far as questions go, I think that you have been very clear in your testimony, but I wanted to ask any of you if you have a specific site, other than the one that has been mentioned here today, that you think that the VA should be looking at here in the State of Illinois for a cemetery.

And my second question is if any of you had anything else you wanted to say about the timeliness or efficiency of the home loan program—anything beyond what is included in your written remarks that you wanted to bring to our attention.

Mr. Cryan?

Mr. CRYAN. Yes, Madam Chairwoman. I would like to say something on the timeliness of the programs brought about. You talked

earlier to Mr. Holmes, Mr. Schneider, Mr. Rogala, and you mentioned that they stayed here when they were done.

These are three gentlemen that are very dedicated. Mr. Holmes does a tremendous job, and we tease him that he has got two unders and an over—he is under-staffed, under-payed, and overworked.

And they do work very hard to get it out in a timely basis. But like everything else, they are limited by law on how many people they can hire at FTEEs.

But with the people that they have, they do an exceptional job. I talk to Sam quite often. I do not get the right answers all the time. But his office is always open to go up and talk to.

And the problem with cemeteries—they did look up at the northern end around Onara airport, I believe, and they had a tie up with the land.

But Joliet, I would believe, would be a fine place, due to the fact that it is easy to get to. And all roads do lead down here; and I do not think it would be any hang up for transportation. Thank you.

Miss KAPTUR. All right.

Mr. SODEN. Congressman Jack, I hope you will excuse me, but representing DuPage county, I am very remiss in my duties if I did not suggest that we move on this expeditiously for the simple reason—with the erosion of open space, and the increasing cost of properties, and the high build up around the traveling corridors such as, now, 88, 55, with the business industry.

We are concerned about the veterans and their families' accessibility to the national cemeteries, or traveling to and from.

And I would seriously hope that all areas would be looked at by the VA. I realize that the good representative of Catholic Charities stated that DuPage county is supposed to be affluent, and we have rather high property values, but I looked at our system of corridors, as far as travel is concerned, and it looks rather ideal to me, west of 59, up into that area.

So, I would hope they would consider that.

Miss KAPTUR. Mr. Davis, did you have anything—any additional questions?

Mr. DAVIS. Nothing except to thank all the gentlemen, particularly Mr. Briesi who is Mr. Veteran in Joliet—Mr. American Legion, thanks, Paul. It is always a pleasure to have you on any panel.

Mr. Guernsey, great testimony.

Mr. GUERNSEY. If I could just make a couple of comments, Congressman and Congresswoman. As far as the cemetery, of course, I am from the capital city in Springfield; we have a beautiful cemetery there—Camp Butler.

And I will let all of those in this area fight that out, for it up here. And hopefully these World War II veterans will not come down and take my place in Springfield.

The other comment that I would make is that the home loan guarantee for many veterans—for myself, I have enjoyed educational benefits under the VA, and I also draw disability compensation.

So, I have my veteran benefits. For some, the VA Home Loan Guarantee Program is the only veterans benefits that they will ever enjoy.

I think it is really a really special program. The only thing—I have gotten a lot out of this view hearing, a lot of education out of it; it has been quite an experience for me.

One of the comments that I picked up on was that Mr. Holmes, who is the VA Office Regional Director, talked about increase in sales.

And he talked about an increase in the number of loans that they handle, and he did not say anything about an increase in personnel.

And I think one thing we have to consider is, if we are going to keep increasing programs, we are going to have to have the personnel to go with that, and everybody is over-worked.

And that may tie it back in to Mr. Vanmeter's comments about the timeliness; that people are over-worked, and they simply cannot accomplish the job.

Thank you.

Miss KAPTUR. I think, Mr. Guernsey, that is an excellent comment. I also wanted to again recognize the gentleman from the VA, Mr. Holmes, Mr. Schneider, and Mr. Rogala because they have remained here through the entirety of the testimony.

It is true that people who chose to do this for a life's work will not be millionaires. They chose to serve our country. They chose to serve our veterans.

I think they make a very important statement about who they are as people, and who we are as a country. Over the last several years, it has been very difficult because even though the number of veterans who are using our systems is increasing in our hospitals, and our cemetery systems, the VA overall, inflation discounted, has not received an increase in its budget. This has imposed severe strains on the VA as our World War II and Korean veterans are aging. The pressures on the system have just been terrific. Although we have fought very hard at the Washington level to see that they do get increases, what we mainly have been doing is preventing cutbacks in this area of serving the veterans of our country. Now frankly, I have been in Congress 5 years. This is getting to be a rather frustrating experience.

I would like to do something, rather than just hold the line, because you see the potential for what could be done for our people.

I think that these VA officials should be commended for their hard work, and for making a life choice that benefits a lot of people.

I also wanted to thank, as we close here, the members of our staff that we have brought with us from Washington. They have remained through these hearings. To my left, and to Jack's left is Gloria Royce, who is the Staff Director of our Housing and Memorial Affairs subcommittee, as well as from the committee, Lee Ann Mayo and Anne Stone—Lee Ann is over there at the table, and Anne is behind us.

And then from my own personal staff, Susan Short, and from Jack's staff, Leslie DuBeau, who has come in from Washington with us.

These people also could be doing something else for their life's work, and they have chosen to spend some of their best years serving the veterans of our country.

So, I think to all of them, we owe a special debt of gratitude. We thank you gentlemen for your testimony, and thank everyone in the audience who has stayed through this entire hearing.

You have really impressed me with your attention, and your concern. Jack, I really like your people here.

Mr. DAVIS. Well, doggone it. Now you can all see why I go to every meeting, every subcommittee hearing. She is awfully good.

Miss KAPTUR. Thank you very much. We look forward to coming back to Joliet.

[Whereupon, at 4:10 p.m., the hearing was concluded.]

APPENDIX

HONORABLE MARCY KAPTUR, CHAIRWOMAN
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
HOUSE VETERANS' AFFAIRS COMMITTEE
SEPTEMBER 25, 1987 -- SHOREWOOD, ILLINOIS

THE SUBCOMMITTEE WILL BE IN ORDER.

FIRST, LET ME SAY IT IS A REAL PLEASURE AS CHAIRWOMAN OF THE VETERANS' AFFAIRS SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS TO ACCEPT THE INVITATION OF CONGRESSMAN JACK DAVIS TO COME TO CHICAGO. MR. DAVIS HAS BEEN VERY ACTIVE ON THE SUBCOMMITTEE THIS YEAR. EVEN THOUGH HE HAS A VERY BUSY SCHEDULE, HE HAS ATTENDED ALL OF THE SUBCOMMITTEE'S HEARINGS IN WASHINGTON AND HAS CONTRIBUTED SIGNIFICANTLY TO THEIR SUCCESS. THE PEOPLE FROM THE 4TH DISTRICT OF ILLINOIS HAVE ELECTED A VERY DEDICATED MEMBER OF CONGRESS WHO SPEAKS OUT FOR VETERANS INTEREST AT EVERY OPPORTUNITY HE HAS.

WE ARE HERE TODAY TO FOCUS ON THE OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM IN ILLINOIS -- INCREASED LOAN ORIGINATION ACTIVITY EARLIER THIS YEAR DUE TO LOWER INTEREST RATES, WORKLOAD TIMELINESS, AND FORECLOSED PROPERTY INVENTORY, MANAGEMENT AND SALES.

WE WILL ALSO DISCUSS THE NEED FOR A NATIONAL CEMETERY IN THE CHICAGO AREA. A RECENT STUDY CONDUCTED BY THE VA TARGETED THE CHICAGO AREA AS ONE OF THE MAJOR AREAS WHICH BEST COULD BE SERVED BY A NATIONAL CEMETERY.

OVER THE LAST FIVE MONTHS, THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS HAS HELD SIX HEARINGS ON THE VETERANS ADMINISTRATION HOME LOAN GUARANTY PROGRAM BOTH IN WASHINGTON AND IN THE FIELD. THESE HEARINGS, ESPECIALLY IN THE FIELD, HAVE BEEN HELPFUL TO US IN OUR EFFORTS TO ASCERTAIN WHETHER THIS PROGRAM IS WORKING IN THE MANNER ORIGINALLY INTENDED BY THE CONGRESS.

WE HEARD FROM A BROAD CROSS SECTION OF THE PUBLIC, INDUSTRY, GOVERNMENT, VETERANS GROUPS AND MEMBERS OF CONGRESS. TESTIMONY FROM THESE WITNESSES ADDRESSED THE GENERAL STRENGTHS AND WEAKNESSES OF THE PROGRAM, AS WELL AS SPECIFIC AND OVERSIGHT ISSUES. THESE INCLUDED THE VA APPRAISAL PROCESS; PROPOSALS TO ASSIST HOMELESS VETERANS, VA LOAN SERVICING AND FORECLOSURE PROCEDURES, INCLUDING POLICIES ON "NO-BID" PROPERTIES; PROPERTY MANAGEMENT; ADEQUACY OF THE CURRENT GUARANTY FORMULA; ADJUSTABLE RATE MORTGAGES AS WELL AS PROPOSALS CONTAINED IN THE PRESIDENT'S FISCAL YEAR 1988 BUDGET SUBMISSION.

78-749 - 87 - 3

BASED ON OUR HEARINGS, WE DEVELOPED A BILL, H.R. 2672, SPECIFICALLY IN RESPONSE TO THE CONCERNS AND ISSUES THAT WERE RAISED. THIS BILL CALLS FOR IMPROVEMENTS FROM TWO PERSPECTIVES -- ASSISTING VETERANS IN PURCHASING HOMES AND HELPING VETERANS KEEP THEM.

THE VA'S NATIONAL FORECLOSURE RATE ROSE BY 18.1% LAST YEAR. I BELIEVE THAT INCREASING SERVICING ON LOANS COULD RESULT IN FEWER FORECLOSURES. THE COMMITTEE BILL, H.R. 2672, WOULD THEREFORE REQUIRE THE VA TO PROVIDE MORE EFFECTIVE SERVICING WHEN A LOAN GOES INTO DEFAULT. AT A MINIMUM, VETERANS ARE TO BE ADVISED OF THE ALTERNATIVES TO FORECLOSURE THAT MAY BE AVAILABLE TO THEM, INCLUDING VOLUNATRY DEEDS-IN-LIEU OF FORECLOSURE. I NOTICE THAT THE CHICAGO REGIONAL OFFICE ACCEPTED DEEDS-IN-LIEU OF FORECLOSURE IN 28% OF THE CASES VERSUS THE VA'S 4% ON A NATIONAL BASIS. I THINK THIS IS VERY COMMENDABLE AND WILL DISCUSS THIS ISSUE FURTHER WITH THE VA OFFICIALS WHO WILL BE APPEARING SHORTLY.

IN ADDITION, THE BILL ESTABLISHES A MORTGAGE FORECLOSURE RELIEF PROGRAM TARGETED TO VETERANS WHO HAVE EXPERIENCED DEFAULT THROUGH NO FAULT OF THEIR OWN. IN ESSENCE, THE BILL WOULD AUTHORIZE THE ADMINISTRATOR TO MAKE LOANS FOR THE PURPOSE OF PROVIDING MORTGAGE ASSISTANCE AND THEREBY PREVENTING FORECLOSURES UP TO A MAXIMUM OF $8400 TO VETERANS OR THEIR SURVIVING SPOUSES, IF CO-OBLIGORS, IF THEY ARE UNEMPLOYED, HAVE SUFFERED A SUBSTANTIAL REDUCTION IN HOUSEHOLD INCOME AND HAVE PREVIOUSLY GUARANTEED VA HOUSING LOANS WHICH ARE AT LEAST SIX MONTHS DELINQUENT. THESE LOANS WOULD BE SET UP AS ESCROW ACCOUNTS IN LENDING INSTITUTIONS AND WOULD HAVE TO BE REPAID DURING SUCH TIME AS MAY BE SET BY THE ADMINISTRATOR, BUT IN NO EVENT LONGER THAN 15 YEARS.

OTHER PROVISIONS OF THE BILL WOULD:

AUTHORIZE ADDITIONAL LOAN AMOUNTS TO PROSPECTIVE PURCHASERS OF VA'S FORECLOSED PROPERTY AS MAY BE NECESSARY FOR REHABILITATION PURPOSES;

AUTHORIZE 25% DISCOUNTS ON PROPERTIES SOLD TO ORGANIZATIONS WHO AGREE TO EMPLOY VETERANS THROUGH THE JOB TRAINING ACT TO REHABILITATE THE PROPERTY;

ENCOURAGE ORGANIZATIONS AND POLITICAL SUBDIVISIONS TO ACQUIRE DIFFICULT-TO-SELL FORECLOSED PROPERTIES TO ASSIST HOMELESS VETERANS AND AUTHORIZE THE ADMINISTRATOR TO DISCOUNT PROPERTIES

FOR THAT PURPOSE;

OUTLINE QUALIFICATIONS FOR VA FEE-BASIS APPRAISERS; AND AUTHORIZE APPRAISAL REPORTS TO BE SENT DIRECTLY TO CERTAIN LENDERS FOR EXPEDITED REVIEW AND REASONABLE VALUE DETERMINATION; AND

MODIFY THE VA'S PROPERTY ACQUISITION GUIDELINES IN RESPECT TO INTEREST CALCULATIONS IN CERTAIN CIRCUMSTANCES.

THIS BILL PASSED THE HOUSE ON AUGUST 3, AND WE WOULD LIKE INPUT FROM OUR WITNESSES ON ITS POTENTIAL FOR IMPROVING THE VA LOAN GUARANTY PROGRAM AT THE LOCAL LEVEL.

WITH REGARD TO A NATIONAL CEMETERY, IT IS ENCOURAGING THAT THE APPROPRIATIONS BILL PASSED BY THE HOUSE JUST 2 DAYS AGO INCLUDES $220,000 FOR AN ENVIRONMENTAL IMPACT STATEMENT. IF APPROVED BY THE SENATE, THIS WOULD BE THE FIRST STEP IN DETERMINING THE MOST APPROPRIATE LOCATION FOR A NATIONAL CEMETERY.

I WOULD ALSO LIKE TO COMPLIMENT REPRESENTATIVE DAVIS FOR HIS EFFORTS IN LOOKING FOR POSSIBLE SITES FOR A CEMETERY HERE. AT HIS INITIATIVE, FOR EXAMPLE, THE MILITARY AUTHORIZATION BILL WAS AMENDED TO PROVIDE FOR A DIRECT TRANSFER OF LAND FROM THE JOLIET ARSENAL TO THE VA FOR THIS PURPOSE. THE BILL HAS PASSED THE HOUSE AND IS NOW BEING CONSIDERED BY THE SENATE.

FINALLY, I WOULD LIKE TO MENTION THAT MR. DAVIS AND I HAD AN OPPORTUNITY TO TOUR THE HINES VA MEDICAL CENTER THIS MORNING. I WAS ESPECIALLY PLEASED THAT THIS IS ONE OF THE SITES SELECTED BY VA FOR A SPECIAL PROGRAM TO ASSIST HOMELESS VETERANS WHO ALSO SUFFER FROM CHRONIC MENTAL ILLNESS.

BEFORE I RECOGNIZE OUR FIRST PANEL, I WOULD LIKE TO RECOGNIZE MR. DAVIS FOR HIS REMARKS.

STATEMENT

OF

SAMUEL HOLMES, DIRECTOR

VETERANS ADMINISTRATION REGIONAL OFFICE

CHICAGO, ILLINOIS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

SEPTEMBER 25, 1987

Madam Chairwoman and Members of the Subcommittee:

On behalf of the Chicago VA Regional Office, I am pleased to welcome you and members of your staff to Illinois. I sincerely appreciate your interest in the operation of the VA Loan Guaranty Program in the jurisdiction of this office and hope that the information provided in today's testimony will be useful to you.

I am accompanied today by our Loan Guaranty Officer, Mr. Alan Schneider. Mr. Schneider is prepared to provide a detailed discussion of the operation of the VA Loan Program in Illinois, particularly with regard to recent trends in new loan originations, defaults and claims, and our property disposition activities.

Madam Chairwoman, I believe it would be helpful to begin with a brief description of our Regional Office's operations. The Chicago VA Office has the responsibility for administering the VA Loan Program in the entire State of Illinois. Demographically, the State consists of two diverse economies: The vast Chicago metropolitan area comprising the Northeast corner of the State, and the primarily rural, agricultural economy of the balance of Illinois. Over 60% of the State's population lives in only 6% of its geographic area, consisting of the City of Chicago and nearby suburbs.

In terms of veteran population, the State of Illinois is seventh largest in the nation, with over 1 1/4 million veterans.

To serve these veterans, the Regional Office currently has a full time staff of 434 employees, of which 107, or roughly one-quarter, are assigned to the Loan Guaranty Division. This staffing level makes the office 5th largest in the Nation in Loan Guaranty employment.

Since the inception of the VA Loan Program, the Chicago VA Regional Office has guaranteed over 395,000 home loans for veterans, with a total face amount in excess of $8.7 billion. Of these, only 29% are still outstanding, with over 64.5% paid in full and only about 6.5% terminated through foreclosure.

For the calendar year to date, we have guaranteed over 9,000 home loans. Surprisingly, this represents a 57% increase in guaranties over the same period last year, despite the fact that 1986 was an all-time record-breaking year for the Loan Guaranty Program. We do expect our new loan activity to drop off, however, as we clear the pipeline of loans in process since before the increases in the interest rate that took effect earlier this year.

I am pleased to report that there has been a dropoff in defaults on VA loans in Illinois. For several years this office experienced a high level of defaults and claims on guaranteed loans, so it was particularly encouraging to observe an improving trend in this area in recent months. Defaults reported since the beginning of the calendar year are down 5% compared to the same period last year, and our pending defaults are also 5% less than this time last year.

I am also pleased to note that, in the area of acquired property sales, this office has increased its sales 45% for the

calendar year to date over the same period last year. We have also been able to sell 24% more properties than were acquired so far this year.

Before concluding, Madam Chairwoman, I would like to comment on the VA's efforts to provide assistance to homeless veterans in the Chicago area. Our Hines, Illinois Medical Center is really the focal point of VA's efforts in this area, having received $128,000 in FY87 budgeted funds for this purpose. Since embarking on the project in June of this year, the Medical Center has approved five halfway houses, in which 16 veterans have been placed so far.

The role of the Regional Office has been primarily one of communication. We maintain a liaison with those facilities that regularly come in contact with the homeless to assure that information is made available on the Hines Project and VA benefits in general. To date, we have contacted some 130 homeless shelters in Illinois, personally visiting over half of them to furnish information on VA programs. Our Veterans Benefits Counselors maintain up-to-date listings of these shelters for referral purposes when contacted by homeless veterans. We have also established contact with the Chicago Coalition of the Homeless and have given and received training to and from local Catholic Charities.

Madam Chairwoman, this concludes my statement. Our Loan Guaranty Officer, Mr. Schneider, will provide more specific information on the VA Loan Program. I will be pleased to answer any questions you may have now or at the conclusion of Mr. Schneider's remarks.

STATEMENT

OF

ALAN SCHNEIDER, LOAN GUARANTY OFFICER

VETERANS ADMINISTRATION REGIONAL OFFICE

CHICAGO, ILLINOIS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

SEPTEMBER 25, 1987

Madam Chairwoman and Members of the Subcommittee:

It is a pleasure to have the opportunity to appear before you today to discuss the operation of the VA Guaranteed Loan Program in the State of Illinois.

As Mr. Holmes noted, my office continues to process a heavy volume of new loan guaranties despite three increases in the VA interest rate this year. However, the loan applications for most of these cases predate the rise in interest rates, and we have seen a significant decline in appraisal requests in recent months. In fact, the total number of Certificates of Reasonable Value issued since the beginning of the calendar year is off by 41% from the same period last year. However, if we discount last year's anomalous VA loan demand caused by declines in interest rates in 1985 and 1986, our current appraisal workload for the fiscal year to date is comparable to the average work output for the five year period prior to FY 1986.

As a result of this moderating workload, we have been able to provide timely service in the areas of appraisal processing, certificates of eligibility, and loan processing.

Mr. Holmes also commented on the encouraging downward trend in defaults reported on VA loans. This trend is particularly noticeable over the last five months, which have shown a reduction in reported defaults of over 20%, compared to this same time last year. We believe this improvement is partially attributable to a strengthening in our underwriting methods, both from a National and local standpoint, and a reversal of some of the difficulties experienced in the last few years in this State's local economies.

Our Downstate communities were particularly hurt by the nationwide deterioration in the farming and farm equipment industries, and the Chicago metropolitan area was suffering from weaknesses in durable goods manufacturing and smokestack industries, such as steel production. The Chicago area has also been affected over the last several years by its gradual transformation from a basically blue collar community to an essentially white collar service industry economy. These changes, together with an ongoing migration of certain industries to Sunbelt areas and Chicago suburbs, caused a disruption in what had previously been stable employment patterns in the majority of the city. Recent signs, however, show a stabilizing trend in all of these effects, with a consequent improvement in the ability of veteran homebuyers to obtain and keep dependable employment, and thus meet the payments on their VA loans.

These economic improvements are also reflected in advances in our sales of acquired property. With this station's increased sales activity, as noted by Mr. Holmes, we have managed to reduce our acquired property inventory from an all-time high of 3163 properties in June 1984, to its present level of 2599. this accomplishment is particularly notable in light of Illinois' unusually lengthy foreclosure process, which affects our ability to acquire and dispose of properties on a timely basis. Attachment A to my testimony illustrates on a timeline that the typical foreclosure entails about two years from the initial default to the point at which we can finally dispose of the property and recoup a portion of VA's loss.

Because of these delays, this office is more inclined to accept deeds in lieu of foreclosure from defaulted veteran borrowers to save the time and expense to the Government that would result if we were to allow the foreclosure to take place. Last year, in fact, deeds in lieu accounted for over 24% of this office's 2039 total guaranteed loan liquidations, compared to a nationwide average of only 4.2%.

Once we obtain title to the property and find that it is vacant, we are able to list and sell it fairly rapidly. In fact, in the last few months, we have completed the property analysis and listed the property for sale within 30 days from the end of the redemption period (or vacancy) in 95% of the cases. In addition, besides reducing our total property inventory, by concentrating our sales efforts on our older properties, we have been able to decrease properties on hand for 12 months or more by 28% so far this fiscal year.

We hope to further improve our property sales record in coming months with the installation of two personal computers, one of which will be used to prepare sales closing documents on an automated basis. The other computer will be dedicated to a 24-hour bulletin board which will allow sales brokers immediate access to current property listings and advise them of the status of their offers. We expect that this information, which will be updated on a daily basis, will make it easier for sales brokers to participate in our acquired property sales program and thus result in more sales.

Madam Chairwoman, this concludes my statement. I will be pleased to answer any questions you may have.

ATTACHMENT A

TYPICAL ILLINOIS PROPERTY ACQUISITION AND SALES PROCESS

OLD PROCEDURE

1/1	4/1	6/1	7/15	9/1	12/1	1/15	2/15	7/15	8/15	10/15	12/31
VETERAN MISSES PAYMENT	NOTICE OF DEFAULT TO VA	NOTICE OF INTENT TO FORECLOSE TO VA	LENDER REFERS TO ATTORNEY	ATTORNEY FILES COMPLAINT WITH COURT	DECREE ISSUED BY COURT	FORECLOSURE SALE. PROPERTY ADDED TO VA INVENTORY. PROPERTY ASSIGNED TO MANAGEMENT BROKER	LENDER'S TITLE PACKAGE RECEIVED	END OF REDEMPTION. DEED RECORDED TO VA	PROPERTY LISTED FOR SALE (IF VACANT- IF EVICTION NECESSARY, ADD 6 MONTHS TO 1 YEAR)	PROPERTY SOLD	SALES CLOSING

NEW PROCEDURE*

1/1	4/1	6/1	7/15	9/1	12/1	6/1	7/1	8/1	10/1	12/15
VETERAN MISSES PAYMENT	NOTICE OF DEFAULT TO VA	NOTICE OF INTENT TO FORECLOSE TO VA	LENDER REFERS TO ATTORNEY	ATTORNEY FILES COMPLAINT WITH COURT	DECREE ISSUED BY COURT	FORECLOSURE SALE AND END OF REDEMPTION. ORDER OF POSSESSION TO VA (NO LENGTHY EVICTION ACTION NECESSARY)	LENDER'S TITLE PACKAGE RECEIVED	PROPERTY LISTED FOR SALE	PROPERTY SOLD	SALES CLOSING

*EFFECTIVE FOR CASES WHERE COMPLAINT FILED AFTER 7/1/87

SUBCCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
HOUSE VETERANS AFFAIRS COMMITTEE
JOLIET, ILLINOIS
SEPTEMBER 25, 1987

TESTIMONY OF JOHN C. METZLER, JR.
DIRECTOR, NATIONAL CEMETERY AREA OFFICE, PHILADELPHIA
VETERANS ADMINISTRATION

Good afternoon, Madam Chairwoman. It is a pleasure to represent the Veterans Administration at your hearing with regard to establishing a new national cemetery in the Chicago area.

For the past several years, planning for the National Cemetery System has been based on the Regional Concept. Under this concept a large national cemetery has been designated to serve the veterans in each of the 10 Standard Federal Regions. Chicago is located in Standard Federal Region V. The Ft. Custer National Cemetery in Battle Creek, Michigan, is the regional cemetery for this area.

In 1986, Congress enacted Public Law 99-576, which, among other provisions, required the Veterans Administration to conduct a major study of the National Cemetery System, including a list of the 10 geographic areas of the country where the need for additional veterans' burial space is greatest. Chicago was identified as the first location on that list, based on total number of veterans who would be served.

The study does not call for an expansion of the National

Cemetery System. Rather, it recommends a comprehensive policy review to determine the effectiveness of the Regional Concept, and whether any additional national cemeteries should be built.

Under present policy, VA will not be initiating development of any new national cemeteries. However, what I can do today is provide the Subcommittee with information on legislative action related to a national cemetery for Chicago; the veteran demographic characteristics of this area; the national cemetery construction process; estimated costs; and some general impressions of the land at Joliet Arsenal which has been proposed as a site for the new cemetery. I hope that this will be helpful to the Subcommittee as you proceed with your legislative agenda, and with your oversight of the National Cemetery System.

Status on Legislative Action

As I mentioned earlier, the VA has recommended that a comprehensive policy review be undertaken before any decisions are made regarding the establishment of new national cemeteries. Congress, however, has initiated some actions which could lead to a new national cemetery in Chicago based on legislation rather than on an administrative policy decision.

This includes a provision in the Military Authorization Bill, H.R. 1748, which provides for a direct land transfer from the

Joliet Arsenal to the VA for establishing a national cemetery.

I also understand that the House Appropriations Subcommittee on HUD-Independent Agencies has earmarked $220,000 in Fiscal Year 1988 to conduct an Environmental Impact Statement (EIS) for a new national cemetery in the Chicago area. The EIS is the first formal step in the construction process, and provides for a comprehensive review of environmental, demographic, accessibility, and related issues.

Veteran Demographics

The single most important consideration in establishing a national cemetery is service to veterans. Experience shows that the vast majority of people who use a national cemetery come from within a 50-mile radius, and to a somewhat lesser extent a 100-mile radius of the cemetery. We call that 50-mile radius the Primary Service Area, and the 100-mile radius the Secondary Service Area. Together, they are referred to as a Combined Service Area. Veteran population and projected veteran deaths are critical indicators in evaluating the potential effectiveness of a proposed national cemetery.

VA's recent study of the National Cemetery System showed the following information for Chicago:

Veterans in Primary Service Area	779,826

Veterans in Secondary Service Area	295,473
Total (Combined Areas)	1,075,299

For the Illinois counties included, this represents 72.1% of the State's entire veteran population, and 4% of the veteran population nationwide.

In addition to the veterans themselves, their spouses are also eligible for burial in a national cemetery. This brings our estimate of the total potential users up to 1,914,032.

With the aging of the veteran population, estimated veteran deaths can also provide an important measure of a national cemetery's potential effectiveness. For Chicago, the estimated veteran deaths in the combined Primary and Secondary service areas are as follows:

Year	Estimated Veteran Deaths
1990	19,036
2000	21,951
2010	22,290
2020	19,443

Cumulatively, veteran deaths throughout VA's long range planning period (through the year 2030) are expected to number 658,850 for the Chicago area.

It should be noted that the demographic data provided includes the veteran population for all counties in the respective service areas. Some of these counties are also located in the service area of an existing national cemetery.

Construction Process

As with any other Federal construction process, VA must comply with all legislative, regulatory, and procurement requirements when building a national cemetery. Based on past experience, we have determined that construction of a new cemetery typically takes about 7 years from start to finish.

To the extent possible, the various aspects of the project are carried on simultaneously, in order to shorten the time frame as much as possible. A brief explanation of the major elements in a development schedule is given below. This represents a hypothetical example for purposes of illustrating the basic process. There may be special factors at individual locations which would affect the schedule. For example, at the proposed Joliet Arsenal site, U.S. Army representatives have advised us that they would need to conduct a hazardous materials survey on the property before any development could take place. This would take an additional 2 to 2 1/2 years.

EIS Process (19-20 months). The Environmental Impact Statement (EIS) is required by the National Environmental Policy Act of

1969. A private contractor is hired to evaluate a broad range of environmental factors at all potential sites for the new cemetery. These include air, water, soil conditions, demographics, accessibility, cultural resources, and impact on the local economy such as private cemeteries within the proposed service area. The EIS must first be issued in draft form for public comment, and then is issued as a final report.

Under the EIS, it is our understanding that VA is required to evaluate all alternatives, even if a specific property is transfererd by legislation. The best possible site would be selected to provide service to veterans, including demographics and proximity to centers of veteran population.

Land Acquisition (18 months). Agreement must be reached between the VA and the donor regarding the exact boundaries of the property to be transfered. Surveys, title searches, and final approval by the Justice Department are also involved. Under the typo of compressed schedule given in the example, land acquisition is conducted simultaneously with other aspects of the construction project.

Master Plan (18 months). The master plan is a critical aspect to the development of a new national cemetery, as this is where long range decisions are made about the facility's future size and basic configuration. VA hires an Architect/Engineer under private contract to prepare a master plan that will guide

development of the cemetery in a logical, consistent, and efficient manner over a period of many years, and that will assure the cemetery is designed for effective land use throughout the long-range planning period.

Cultural Resource Inventory and Section 106 Compliance (24 months). Another legislative requirement (the National Historic Preservation Act of 1966 as amended) provides for a survey of the prospective site to determine if any historic or archaeological artifacts are buried there. This also may be conducted concurrently with other phases of the overall project. The State Historic Preservation Officer (SHPO) review enters into this aspect of the cemetery development process.

Construction (36 months). Based on the Master Plan, an Architect/Engineer is hired to prepare detailed working drawings for the first phase of cemetery construction. This would include an entrance way, roads, administrative and service buildings, and burial areas. Actual construction is opened for competitive bidding, and a private contractor selected.

The entire process is lengthy, but VA must comply with a wide range of applicable laws and procurement regulations. If Congress mandates a new national cemetery in the Chicago area, we would move as quickly as possible with the schedule, while at the same time assuring that sound planning and quality

workmanship go into the development of the facility.

Cost

National cemeteries are developed in phases, to avoid unnecessary costs of developing land that will not actually be needed for burials for many years. Based on our most recent experience, the estimated cost for Phase I construction of an appropriately sized national cemetery would be $6-8 million. This would provide for initial gravesite development, an adminstration building, service building, public restroom, committal service shelters, utilities, landscaping, flagpole assembly area, and entrance way.

Typically, for Phase I, 5 acres would be required for buildings and roads, and 35 acres for burial areas. Given a veteran population of over 1 million, 110-120 additional acres would eventually be required for burials. This would yield approximately 61,000 gravesites for the long range planning period (through the year 2030). We would anticipate an annual interment rate of about 2,000.

Additional resources would be required for ongoing staff and operating costs.

Joliet Arsenal Site

Representatives of VA's Central Office and I toured the proposed site at the Joliet Arsenal last week. Although this does not represent a formal statement of VA policy, I would be glad to share with the Subcommittee my personal impressions of this land as a possible site for a national cemetery.

Madam Chairwoman, this concludes my formal statement. I would be pleased to answer any questions.

STATEMENT OF PHIL LASKO

LASKO
REALTY, INC.
106½ W. MAIN STREET
P.O. BOX 234
DUNDEE, ILLINOIS 60118
PHONE 428-2223

September 15, 1987

Marcy Kaptur,
Chairwoman
Subcommittee on Housing
and Memorial Affairs
335 Cannon House Office Bldg.
Washington, D.C. 20515

Dear Ms Kaptur:

My name is Phil Lasko and I am a Real Estate Broker and have been licensed in that capacity since 1961.

Our company is located in West Dundee, Illinois, and we have been at the same address for the past 17 years.

I have been working with the Veterans Administration as a Property Management Broker for about 11 years. I do not really consider it work, it is an adventure! We enjoy what we do. Everyday we encounter new challenges and each has to be thought out carefully to bring that particular problem to a satisfactory conclusion. Our job is property protection, safety and health. We visit the homes that we have in our inventory on a monthly basis, or more often if keys are missing or if vandalism occurs, or to check repairs that were completed by contractors, to see if they are done in workman like fashion, so that payment can be made for services rendered. We write appraisals that include repair specifications, and we serve Demands for Possession and Declarations of Forfeitures and assist the Sheriff's Police with evictions.

The Veterans Administrations policy now is to sell re-acquired properties in an AS-IS condition, with the purchaser being responsible for repairing the property. The Property Management Broker is restricted to make minimal repairs, examples of which are as follows:

1. If there is excessive water in a crawl space or a basement and if there is an inoperable sump pump we can have a new sump pump installed, or if there is not a sump pump at all, we can install a sump pump pit and a new sump pump to correct the problem.
2. If there is a roof leaking that is causing damage to the interior of the property we can obtain roof re-shingling bids and have the roof repaired.

The majority of Veterans Administration properties that are acquired through foreclosure are in need of much repair as they are in most instances totally neglected prior to the conveyance of the property to the management company.

The Veterans Administration offers these properties for sale on a 30 year contract term with a fixed interest rate and the Veterans Administration holds title to the properties.

The owner occupant purchasers of these homes are in the majority first time buyers and have just enough cash to make their down payment and the one per cent funding fee and the other closing costs involved in making the loan. They do not have additional funds or the ability to repair the homes they have purchased.

My recommendation is that the Veterans Administration make repairs to the properties not to exceed $2,000 to $3,000 per home.

These properties could be sold with the mechanical systems in operable condition at the time of closing and the structure to be made safe, sound and habitable. The costs of these repairs can be included in the sale price of the property and would be paid for by the purchaser.

About seventy five per cent of the acquired properties are being offered with Contract Terms and the repair program that I recommend would pertain to those properties only. The other twenty five per cent of the properties are offered for sale to purchasers that can obtain conventional financing with a Savings and Loan Association or a Mortgage Company.

Properties that are offered for cash should also be put in a saleable condition so that when the mortgage lender sends their appraiser out for the purpose of evaluating the property it will be in such condition so as to be approved by the lender for the appraised value.

If these properties that are offered for cash are not repaired and therefore not in a saleable condition most lenders will not make the permanent loan on the property, and as a result the VA will have to put the property back on the market for sale, thus losing a great deal of time in processing the original offer and the subsequent rejection of such offer.

If the property is listed for sale "AS-IS" it will not sell fast. The holding costs to the VA can be as much as $1,000 per month per property. The properties would sell much faster repaired thus saving the government substantial sums of money.

The VA would control the repair program internally with the use of Realty Specialists and Property Managers.

Purchasers would benefit by having their homes repaired prior to possession and the people near or next to these properties will be happy having their neighborhoods improved.

The personnel in the Property Management Section of the VA that I have contact with are dedicated, honest and hard working, and perform well.

I have a particularly agreeable relationship with William Collins, Dave Stelzner, Bob Riley, Isiah Williams and Jeff Arnold. They work under a great deal of pressure and have heavy work loads, and they are to be commended.

Yours truly,

Phil Lasko

Phil Lasko

STATEMENT OF ROBERT W. STRUTZ

RWS Development Corporation
9650 West 194th Street • Mokena, Illinois 60448 • (312) 479-2990

September 22, 1987

U.S. House of Representives
Subcommittee on Housing
Memorial Affairs
335 Cannon House Office Bldg.
Washington, DC 20515

Honorable Members,

Being a residential builder and developer in the Chicago area with the majority of our mortgage financing offered our buyers being FHA/VA insured programs, I have become very concerned with the viability of these programs and how pending changes being proposed will affect and even curtail some programs all together in the near future.

I would like to breifly discuss three areas of great concern pertaining to FHA/VA insured mortgage programs now being offered and how changes in these programs would effect a median income family and their ability to purchase a home in todays housing market.

The first area I would like to discuss is the proposed curtailment of the "Graduated Payment Mortgage" Loan program, better known as the G.P.M. Briefly the G.P.M. is a mortgage that enables buyers to have a smaller monthly payment requirement during the first years of their mortgage. Mortgage payments will increase by a specified percentage each year and then level off to a consistent payment over the life of the mortgage.

The G.P.M. program was incorporated into the National Housing Act of 1974, and was offered by the FHA in 1977. With the G.P.M.'s low down payment requirements, gradual yearly increase in the monthly mortgages payments and the higher allowable debt to earnings ratios used to calculate the mortgage

amount a buyer can qualify for.

The G.P.M. program, since its inception, has helped thousands of young families starting out, to purchase their own home. To legislate the curtailment of the G.P.M. program would seriously affect the ability of young starting families to pursue the "American Dream" of owning their own home, the purpose this program was originally designed for.

My second area of concern is the need to increase the Maximum Mortgage Amount allowed on a FHA insured loan designated in high cost areas. The present mortgage ceiling allowed thru FHA of $87,250.00, when enacted in 1979 enabled a buyer to purchase a median priced home of $65,000 to $75,000 with a minimum downpayment requirement of 3.5 to 5.0% of the purchase price, with the allowable mortgage amount still far exceeding the sales price of the home.

In today's housing market, that median price home now exceeds $100,000.00 in most of the major urban markets and is escalating as demand grows. With such a desparity between the allowable mortgage amount and the cost of a median priced home, the average homebuyer would need a downpayment of more than 12 to 15% of the cost of the home to qualify for a FHA insured loan under the current guide lines.

With the original intent of the FHA Insured Mortgage programs to make homeownership obtainable to more families, unless the maximum mortgage amount of $87,250.00 can be increased to $102,250.00 to keep in line with current housing costs, in the higher cost areas. As years go by and costs escalate, the effectiveness of the program will dimish to the point where a first time homebuyer will no longer be able to look to FHA insured mortgage programs for helping in the purchase of their first home.

The last area of concern I would like to review briefly is the need of Extending Permanent Authority to the FHA.

In the past 12 months the FHA was shutdown 6 separate times for a combined period of 51 days, during peak periods of high demand, due to the fact funding had not been allocated. While the FHA was shutdown during these periods great unrest existed thru-out the mortgage and real estate industry as a whole. The validity of the FHA insured mortgage program as a whole was severly criticized for leaving not only the unknowing public purchasing homes with FHA mortgages

but the entire industry in a lurch without any reasonable explanations how this could happen and if it would happen again. During the 51 days FHA was shutdown,
1) all processing of new applications were curtailed and no case numbers were issued,
2) closing of loans where held up unless they were previously scheduled before the shut down,
3) processing of loan applications already in for submission were held up without any firm committments being issued.

As you can imagine from a builder's point of view the uncertainty these shutdowns caused.

It is the desire of myself and all builders who were caught up in the shutdown of FHA, that a bill can be provided to give FHA the permanent insurance authority it needs to provide stable funding at essentially current levels or greater.

In conclusion, the inception of the FHA Mortgage Insurance Programs has lead the way to the construction of hundreds of thousands of homes thru-out the United States, being purchased by families using FHA Insured Mortgage Financing Programs where in most cases these families probably would not have qualified under strict conventional lending quidelines.

The production of these homes has also created hundreds of thousands of jobs and has made residential construction one of the biggest industries in the United States.

It is for these reasons I feel we cannot afford to let our current FHA Programs become outdated and obsolete. It is not only the responsibility of the homebuilder but that too of our government agencies thru legislation to keep homeownership affordable for our families, now, and those of their children.

Respectfully Yours,

Robert W. Strutz
President/CEO

RWS/jb

STATEMENT OF FRANK WOLFF

DRAPER AND KRAMER
incorporated
established 1893

REAL ESTATE MANAGEMENT • SALES • MORTGAGES
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TWX 910-221-1265

Madam Chairwoman and members of the subcommittee, my name is Frank Wolff. I am Sales Manager of Draper and Kramer, a mortgage banking company out of Chicago. Our company accounted for approximately 50% of the total VA master panel processing in the Chicago region during the last twelve months which makes us the leading FHA/VA lender for new construction and project lending. I am also secretary/treasurer of the Illinois Mortgage Bankers Association and will be Vice President of that organization next year. I appreciate the opportunity to appear before you.

The first item I would like you to consider is the implementation of a negotiated interest rate similar to that of the Federal Housing Administration. The fact that maximum VA interest rates are regulated by the Veteran's Administration is a disadvantage to veteran purchasers. Since a veteran borrower cannot negotiate a market rate of interest with their lender, and since a veteran cannot pay any portion of the discount charges, the veteran is put in a position to have some sellers not sell to them because the burden of discount points would be on the seller. If the seller is responsible to pay the points, most likely the price agreed to will be higher than what would have been agreed to if an alternate form of financing was chosen or maybe the VA offer will not be accepted at all.

It appears to me if the VA were to allow the interest rate to be determined by the open market and the VA would allow the veteran borrower to pay a portion of the financing costs, veteran borrowers would get the benefit of the most competitive pricing and terms if they could negotiate the interest rate and payment of discount.

Conventional loans and FHA loans allow the borrower to pay any portion or all of the financing fees which include discounts. It seems unreasonable to not allow veterans to pay a portion of the discount charges or to at least negotiate a rate which would allow for the lessening of these charges. As a point of interest, VA refinances allow the veteran to pay all the fees including discounts so why should they not be allowed to pay them on a purchase?

Another issue concerns the amendment which would change the maximum guaranty amount paid to a lender of VA home loan from the present 60 percent to 30 percent. In my opinion, the amendment change will be counter productive for veterans, sellers of real estate and mortgage lenders. With the present "VA No Bid" situation being what it is, a reduction in maximum guaranty will only serve to lessen the availability of VA loans to those who need them the most. Those homes which sell for less than $92,000 will no longer be entitled to the $27,500 guaranty which means that lenders will reconsider their policy on making such loans. The question of no money down lending on the lower priced housing will certainly have to be considered with this

added financial exposure. I'm sure you are aware that the mortgages being made for veterans will cost the lenders more in case of foreclosure due to a 30 percent guaranty. As the price of housing to veterans decreases, the exposure to lenders increases because of the guaranty formula of 30 percent or $27,500 whichever is less. I for one would re-think a no money down policy where lower priced housing is concerned. For certain I would tighten up my companies underwriting standards which in the long run could hurt a portion of the community of veterans wishing to use their VA entitlement.

There is another issue dealing with the refinancing of existing VA loans. The refinancing policies should be changed to allow veterans the opportunity to obtain lower interest rates as well as to be able to take equity out of properties which presently have a VA mortgage. Under the current regulations, a veteran borrower can only refinance an existing VA loan to lower his or her interest rate. When doing so, they are allowed to refinance their existing VA debt as well as the closing costs and discount charges. If by chance the veteran has a second mortgage or some other long term debt which he or she would like to pay off from the equity of their property, they cannot do so under the present regulations. The present regulation allows a veteran who wishes to refinance a home which is <u>not</u> presently under a VA mortgage, the opportunity to mortgage his property up to the appraisal value. By doing so, this veteran can take cash equity out and do with it as he or she wishes. Where as a veteran refinancing an existing VA mortgage

cannot do so. If you carry this one step further, present regulations do not allow for a veteran to refinance a paid off VA mortgage since the veteran is required to dispose of the property before he or she can get restoration of their entitlement. This too should be changed.

As for assumptions, it is my feeling that the VA should require lender underwriting on assumptions of VA loans which occur during the early part of a mortgage. I would recommend a policy similar to that of the FHA which is to require underwriting on loans less than two years old or at the very least, on year old.

I also recommend that VA allow lenders approved to process loans under the automatic approval basis to hire their own staff appraisers. If the lender chooses to have the VA assign an appraiser, they should require the appraisal to be submitted directly to the lender in the same manner the FHA does it. In light of our financial responsibility and the VA's ability to spot check a representative percentage of all appraisals completed, the risk of poor appraisals would be at a minimum. The fact that VA is under staffed to review and issue appraisals on a timely basis is just one of the reasons that this change is needed.

Finally, in light of the rising interest rates, it appears that a VA ARM similar to that of the FHA would be appropriate and beneficial to veterans wishing to finance their homes. Since the risk of high interest rates is now being shared by both borrowers and lenders, it seems to me that the programs guaranteed by VA should be competitive and desireable to the market place. This means that something other than the 15 or 30 year fixed rate mortgage should be offered.

Thank you for the opportunity to testify before this subcommittee.

COMMITTEE ON VETERANS' AFFAIRS
TESTIMONY
JAMES A. GIBSON
SEPTEMBER 25, 1987

My name is Jim Gibson. I'm a resident and homeowner within the State of Illinois. I'm employed by Dovenmuehle Mortgage Incorporated as an Executive Vice President, in charge of their Loan Administration Division.

Dovenmuehle is an Illinois Based Mortgage Banker, located in Schaumburg, Illinois. We service approximately 64,000 single family mortgages nationwide. Approximately forty percent (40%) of our portfolio is located within Illinois. We service approximately 20,000 VA Guaranteed Mortgages, of which just over five thousand (5,000) are located within the State. Dovenmuehle (or its predecessor) has serviced VA Guaranteed Mortgages since shortly after the enactment of the Servicemen's Readjustment Act of 1944.

Dovenmuehle is considered to be a mid-size Mortgage Servicer within the industry. At last calculation we were ranked as the fifty-first (51) largest Mortgage Banker in the United States.

I have personally been involved with the servicing of VA Guaranteed Mortgages since 1969. We have experienced a considerable number of changes over the past eighteen (18) years.

In terms of change,

The Veteran's Administration has never really prided itself in being a leader within the industry. Their program is predicated upon the assumption their loans will be serviced in a prudent type manner. They do not prescribe in

detailing the exact procedures in which VA loans are to be serviced. They take somewhat of a common sense approach to servicing. The "VA Lender's Handbook" gives the Lender/Servicer fairly broad descretion in servicing VA loans.

The Veteran's Administration followed HUD in it's enactment of their partial payment regulations of the mid 1970's. The regulations were undoubtedly needed and helped in extinguishing the fast foreclosure philosophy that one time existed within mortgage banking.

The Veteran's Administration is again following HUD in it's proposed Credit Bureau Reporting Requirements. HUD initiated the procedure in late 1986. The Veteran's Administration is in the process of following.

Although they tend to follow HUD on occasion, the Veteran's Administration takes no back seat to any Governmental Agency affiliated with Mortgage Servicing. To their compliment, the Veteran's Administration's common sense approach, tends to react and not over-react in initiating procedures. The forethought in the implementation of their Credit Bureau Reporting Procedures is a good example. They have viewed all sides and concerns prior to the actual implementation of the new requirement.

There is one area in which the Veteran's Administration has played a lead role and is definitely unique. That being the election to exercise their right to pay the guaranteed portion of the debt and refuse conveyance of the property. This is referred to as "The VA NO-BID".

In reviewing the many changes that have taken place in the 1980's, we've seen the complete restructuring of our Federal Bankruptcy Laws, the recent Illinois legislation changing the Foreclosure process in this State, as well as the Internal Revenue Reporting Requirements established in 1985. No single change has so negatively impacted the Mortgage Banking industry as much as the "VA NO-BID Process".

Mortgage Servicers, such as Dovenmuehle function as a conduit between the actual Veteran and the Private Investor or GNMA Certificate Holder. In the case of Government National Mortgage Association Pooled Mortgages, the monthly principal and interest is paid to the certificate holder, even when the Veteran fail to meet his monthly obligation. The average service fee income received on a GNMA Pooled VA loan equates to 44 basis points. (Example: A $20,000.00 mortgage with a service fee rate of 44 basic points renders the servicer an annual income of $88.00; $7.33/mo). The service fee income is not realized unless the monthly mortgage payment is received. As you can see the profit margin is minimal and substantial losses occur on delinquent and foreclosed loans.

The Veteran's Administration's "NO-BID" procedure has severly compounded the loss ratios associated with foreclosures. It has placed the Mortgage Servicer into the situation of marketing and selling properties originally guaranteed by the Veteran's Administration. I have seen published figures ranging between a $15,000.00 and $25,000.00 average loss per VA NO-BID.

I question the reasonableness of the program being the servicer has no underwriting authority of VA Simple Assumptions. We experience a 23% assumption rate on foreclosed

VA properties resulting in NO-BIDS, where the foreclosed borrower is not the original Veteran.

Finally, I think it should be noted we are experiencing a cultural change within this country as to the commitment to home ownership.

The long term effect in the reduction of Steel production, the Substantial depreciation of land values within certain geographic areas, the increased problem of alcoholism and drug abuse, as well as the ever increasing divorce rate in this country all combine to tarnish what was once called the "Great American Dream".

I realize legislation has recently passed and is presently pending that may aid Mortgage Bankers with this stifling proolem of VA NO-BIDS, (HR 2672; and introduced legislation by Senator Alan Cranston; S9).

I ask this committee to vigorously back any such legislation as a means of maintaining a viable VA Guarantee Program in the future.

JERRY PINTARO

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GOVERNMENT INSURED HOUSING PROGRAM

FOR THE PAST SEVERAL YEARS THE GOVERNMENT INSURED HOUSING PROGRAMS; NAMELY, THE FEDERAL HOUSING ADMINISTRATION (FHA) AND VETERAN'S ADMINISTRATION (VA) RESIDENTIAL MORTGAGE INSURING PROGRAMS HAVE AFFORDED HOME OWNERSHIP TO MANY LOWER AND MIDDLE INCOME FAMILIES WITHIN THE METROPOLITAN CHICAGO HOUSING MARKET AREA.

THE FOLLOWING ITEMS TO BE COVERED ARE IN MY OPINION AREAS OF POSSIBLE CONCERN THAT MAY EXIST WITHIN THE PROGRAMS:

1) THE VETERAN'S ADMINISTRATION MANDATES A CEILING INTEREST RATE FOR INSURED RESIDENTIAL MORTGAGE LOANS. AS A RESULT OF THIS CEILING INTEREST RATE "DISCOUNT POINTS" ARE GENERALLY REQUIRED TO ESSENTIALLY MAKE UP ANY DEFICIENCY BETWEEN THE CEILING INTEREST RATE AND THE TYPICAL MARKET RATE. THESE DISCOUNT POINTS ARE TYPICALLY REQUIRED TO BE PAID BY THE SELLER WHO IN TURN MAY MAKE EVERY ATTEMPT TO "PACK" OR INCLUDE THE REQUIRED DISCOUNT POINTS IN THE SALES PRICE, THEREBY TRANSFERRING THE "DISCOUNT POINTS" CHARGE BACK TO THE PURCHASER. THE RESULT OF THIS IS THE PURCHASER WINDS UP PAYING NOT ONLY THE "DISCOUNT POINTS," BUT INTEREST ON THE LATTER FOR THE NEXT SEVERAL YEARS.

THE HOUSING MARKET IS INFLATED EVEN FURTHER BY THE AMOUNT OF THE DISCOUNT POINTS BEING PACKED INTO THE SALES PRICE WHICH RESULTS IN AN INFLATED SALES PRICE BEING REPORTED WHICH IN TURN THEN IS SALES DATA USED BY APPRAISERS IN WRITING APPRAISALS FOR COMPETING PROPERTIES WITHIN THE SPECIFIC MARKET AREA. ADDITIONALLY,

PRESSURE IS ON THE APPRAISER WHO RECEIVES AN ASSIGNMENT TO APPRAISE A PROPERTY WHERE "DISCOUNT POINTS" MAY BE "PACKED IN." IS THE APPRAISAL PROCESS SO "FINE TUNED" THAT THE APPRAISER CAN ALWAYS IDENTIFY A TWO TO FIVE PERCENT DISCREPANCY IN THE MARKET? I SERIOUSLY DOUBT NOT AND FURTHERMORE, IF THE APPRAISED VALUE WERE TO, THE APPRAISER CERTAINLY COULD BE ACCUSED OF "LOW BALLING" OR A VAST OTHER NUMBER OF DISCRIMINATORY TACTICS HURLED BY POSSIBLY THE REAL ESTATE BROKER, BUYER, SELLER OR EVEN THE LOCAL GOVERNING AUTHORITY THE PROPERTY IS SITUATED IN. FINALLY, THE WORSE CASE SITUATION COMES WHEN THE CEILING RATE AND THE MARKET RATE SPREAD IS SO SIGNIFICANT THAT THE DISCOUNT POINTS ARE "PROHIBITIVE" AND VA INSURED FINANCING BECOMES NOT FEASIBLE WITHIN THE RESIDENTIAL MARKETPLACE.

2) THE NUMBER AND SELECTION OF APPRAISERS THE PAST FEW YEARS WITHIN THE PURVIEW OF THE GOVERNMENT INSURED PROGRAMS AND MORE SPECIFICALLY, WITH THE FHA, HAS CHANGED DRAMETICALLY. AS A RESULT, IN TODAY'S MARKETPLACE, THE APPRAISER IS VERY LIKELY TO BE AN EMPLOYEE OF THE LENDER HE IS WRITING APPRAISALS FOR, TYPICALLY ANSWERING TO THE MANAGEMENT TEAM OF THE LENDING COMPANY. TYPICALLY, THIS STAFF APPRAISER WRITES APPRAISALS SOLELY FOR THE LENDER HE IS EMPLOYED BY. THIS CONTRASTS WITH THE INDEPENDENT FEE APPRAISER WHO IS ESSENTIALLY SELF-EMPLOYED AND WHO WRITES APPRAISALS FOR A NUMBER OF LENDERS AS WELL AS OTHER USERS IN THE INDUSTRY. IT COULD BE FURTHER SPECULATED THAT IN SOME CIRCUMSTANCES THAT THE APPRAISER AND REAL ESTATE BORKER, OR POSSIBLY THE LENDER OR LENDER'S REPRESENTATIVE MAY SHARE ADVERSARIAL POSITIONS CONCERNING THE APPRAISAL PROCESS OR THE FINAL VALUE CONCLUSION WITH RESPECT TO A RESIDENTIAL APPRAISAL REPORT. IT IS IMPERATIVE THAT THE APPRAISAL PROCESS REMAIN AS INDEPENDENT AS PRACTICALLY POSSIBLE TO INSURE THAT TRULY ACCURATE AND REFLECTIVE MARKET VALUE CONCLUSIONS ARE BEING PROVIDED. IT IS AS IMPORTANT THAT THOSE INDIVIDUALS WRITING APPRAISALS AS WELL AS THOSE WHO ARE IN THE FIELD REVIEW CAPACITY BE QUALIFIED

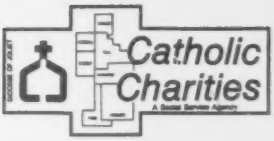
AS WELL AS EXPERIENCED WITHIN THE RESIDENTIAL APPRAISAL PROCESS. AN APPRAISAL IS AND SHOULD REMAIN AS ACCURATE, SUPPORTABLE AND DEFENSIBLE ESTIMATE OF MARKET VALUE.

3) REPAIR REQUIREMENTS ASSOCIATED WITH GOVERNMENT INSURED APPRAISALS IS ONE OF THE AREAS OF GREATEST NOTORIETY WITH THE PUBLIC FOR THE PAST SEVERAL YEARS. THE CONDITION OF A PROPERTY IS TYPICALLY A UNIT OF COMPARISON WHICH IS GENERALLY ALWAYS CONSIDERED IN THE RESIDENTIAL APPRAISAL PROCESS. WHAT IS TYPICAL "CONDITION" IN A PARTICULAR MARKET AREA MAY NOT BE TYPICAL IN ANOTHER OR DIFFERENT MARKET AREA. REQUIRED REPAIRS THAT DO NOT AFFECT THE SUBJECT PROPERTY USE, LIVABILITY NOR FURTHER PRESERVATION OF THE SUBJECT IMPROVEMENTS SHOULD BE REFLECTED WITHIN THE APPRAISAL PROCESS AND THE FINAL VALUE CONCLUSION. REPAIRS REQUIRED BY A SELLER ARE ESSENTIALLY A FURTHER DISCOUNTING OF A SALES PRICE AND ARE RARELY COMPLETED WITH THE QUALITY OF WORKMANSHIP THAT WOULD BE TYPICAL IN THE MARKETPLACE AND THE INDUSTRY. A FINAL VALUE CONCLUSION THAT TRULY REFLECTS THE "AS IS" CONDITION OF THE PROPERTY EXCEPT WHERE ITEMS OF SAFETY, SOUNDNESS AND SANITARY CONDITIONS ARE OBSERVED CONTRASTS WITH A POSSIBLY MORE INFLATED "AS REPAIRED" VALUE WHERE THE PURCHASER ULTIMATELY PAYS FOR REPAIRS OR IMPROVEMENTS HE OR SHE MAY NOT EVEN WANT NOR NEED. ADDITIONALLY, IN THE AREA OF NEW CONSTRUCTION, PRE-FINAL INSPECTIONS MAY BE REDUNDANT, TIME CONSUMING AND COSTLY WHERE ACCEPTED LOCAL CODE ENFORCEMENT PROGRAMS EXIST.

Presented by:

Jerome A. Pintaro
Appraiser
9/18/87

STATEMENT OF DIANE NILAN



Diane D. Nilan, Development Director
411 Scott Street *Joliet, IL 60432* *(815) 723-3405*

September 17, 1987

For over three years, Catholic Charities, Diocese of Joliet, has specifically addressed the needs of the homeless through various programs. Our agency serves seven counties, surrounding the Chicago area. The make-up of them include Dupage County, one of the more prosperous counties in the country, which ironically has a problem with homelessness; Will and Kankakee Counties, suffering from economic woes due to lay-offs, facory and business shutdowns; and Kendall, Grundy, Ford, Iroquois Counties, primarily agricultural areas with problems related to the farm crisis.

Efforts to address the problems of homelessness in Dupage Counties include the development of a PADS Program (Peoples Action to Deliver Shelter), which shelters people during the winter at different churches each night. Staffed mostly by volunteers, this has been one answer to keeping people from actually slepping in the streets of affluent Dupage County. A hot evening meal and breakfast are also served by volunteers. The "guests" sleep on pads on the floor of the churches, but must leave the premises by 7a.m. Despite the obvious benefits of this program, there are areas of concern which are not addressed. The homeless must walk from site to site in the cold during the day; and the sites are miles apart. Many people using the program are unemployed or underemployed persons with families. Because of the nomadic element of this program, lemited additional services are available, perpetuating the hopeless situation of these people.

In Will County, a beginning effort to address homelessness is being funded by the Illinois Department of Public Aid. "Operation Refuge" designed to provide short term emergency shelter for homeless people during winter months, sheltered over 300 people last year. Unfortunately the shelter consisted of motels, which in many cases are unappropriate settings for people with the complex problems of homelessness. Contrary to common belief many of these people were not the stereotyped "street people." The majority of people seeking the shelter are single mothers with 2 or 3 children who lost what meager shelter they had because of an eviction or domestic problems. A steady flow of single men or women who had

no place to go requested help in obtaining at least temporary shelter. Most of thses clients had been lost in the paper shuffle of a public agency such as public aid, or social security, awaiting meager benefits that would enable them to survive. Many are deinstitutionalized mental patients who are not equipped to wade through the maze of requirements needed to connect with the available resources.

Some of the people served under "Operation Refuge" were families who could not hang on any longer. The difficult economic conditions in Will County caused many families to gradually lose everything they had, including their dignity.

The main problem with the measures that address homelessness including PADS and "Operation Refuge", is that there is a limited opportunity to provide the needed services to enable most of these people to move off the streets and into more permanent homes. Progress such as these cause additional strain on communities and further deteriorate the lives of people being served. No one social service agency is equipped to deal with these "problem people", no government agency is able to make a concerted effort to break the cycle of homelessness, so the problem of people without a home continues, year round.

People making laws which eventually affect this "new population" -the homless- need to realize that the red tape and regulations surrounding potenial assistance may choke these people even before they receive the benefits. Comprehensive services must be administered to these people, but these services must be provided with a element ao dignity. Safety nets need to be set up on the local and state levels to provide adequate assistance for persons making the transition from homeless to sheltered. This includes raising the welfare grant levels, which now do not allow for a better lifestyle than walking the streets. Processing public aid and SSI applications in a timely manner would also help deal with homelessness. Reducing the "catch 22" situations that occur in government regulations would also be a positive factor. Public housing, operated by local housing authorities needs to be more effective in meeting short-term emergency housing needs.

The federal government needs to take a stand on a humane policy to deal with the homeless without over regulating agencies who deal with this population. The best perspective for any legislator who must decide on action to take would be from the position that "There but for the grace of God, go I."

Submitted by: Diane D. Nilan
Development Director
"Operation Refuge" Coordinator
Joliet Housing Initiatives Co-Coordinator

September 25, 1987

OPERATION REFUGE SUMMARY

Enclosed is a breakdown of cases served through Catholic Charities Operation Refuge Program from May, 1987 - September. 1987. This is not the "typical" homeless period - supposed to be off peak as compared to winter. From September '86 to April '87, we served approximately one hundred - forty people. As noted, May '87 - September, shows approximately two hundred served.

Typical cases include a young couple (mid-twenty) with 1-2 children, who have been evicted, awaiting Public Aid benefits, and searching for an apartment, that is in the price range of $240-$340.
A large segment of cases (approximately one third) are local or 'enroute to' persons who simply have no food, shelter or funds, and are sleeping in abandoned buildings, car and usings the mission and churches for meals - free of charge. This age group is anywhere from teens to senior citizens; some are on Social Security or Public Aid and cannot make it, financially from month to month.

Another situation, common to Operation Refuge involves persons with disabilities, who can not work full-time - yet do not quality for assistance enough to maintain independently. This group also includes people unable to function to that same extent due to developmental disabilities.

We feel that government has a responsibility to these homeless and borderline homeless people to expedite assistance is rightfully theirs and to look at existing programs that may have gaps.

Local groups may be willing to serve the homeless population however they need federal, state and local support to provide comprehensive assistance.

Diane D. Nilan
Development Director
Catholic Charities

DDN/bjp

CATHOLIC CHARITIES
411 SCOTT ST
JOLIET IL 60434
DIANE D. NILAN

SEPTEMBER, 1987

OPERATION REFUGE
MAY '87 to present

PARTICIPANT					CIRCUMSTANCES				
ADULT		CHILDREN	ENROUTE/	LOCAL STR.		P/A pend'g			
M	F	under 18	INDIGENT	PEOPLE	EVICTION	Apt. search	ABUSE	FIRE	MISC/ other
	28				X	X			paraplegic/wheelchair
27	27	1			X	X			lost job
	33	3			X	X			lost job
41	41		X						
27				X		X			DISABILITY (DEVELOPMENT'Y)
41,25									
24	47				X	X			job search
	25	(p.g.)		X	X	X			
27				X		X			
	30	3			X	X			
	19	1				X			relocating from N. CAR.
23				X		X			job search
	45		X						relocating from CA.
21				X		X			job search/DIS-DEV.
	30's	4			X	X			
20's				X		X			job search/ out of rehab
30's				X	X	X			job search/ DIS-DEV.
	30's	7			X		X		
20	19	(p.g.)		X	X	X			living in van

PARTICIPANT

ADULT M	ADULT F	CHILDREN under 18	ENROUTE/ INDIGENT	LOCAL STR. PEOPLE	EVICTION	P/A pd'g/ Apt. search	ABUSE	FIRE	MISC/ other
25	24	2		X	X	X			job search
22	22	2			X	X			job search
	55			X	X				alc/drug abuse
24	20	1			X	X			job search
24				X	X	X			job search
	40	3			X	X	X		
21	19	2		X	X	X			job search
20	17	2			X	X			job search
	28	1		X	X	X			medical att'n (child)
45	47		X						MED. EMGC'Y
40's			X						relocating to MICH.
35				X		X			out of rehab
47				X	X	X			jobless
21	20	2	X	X					relocating from ALABAMA
	40			X		X			
52				X		X			
30	29		X						relocating from NY to CA
32				X	X	X			SS check late
21	20			X		X			

PARTICIPANT

ADULT M	ADULT F	CHILDREN under 18	ENROUTE/ INDIGENT	LOCAL STR. PEOPLE	EVICTION	P/A pd'g/ Apt. search	ABUSE	FIRE	MISC/ other
	20's	2			X	X	X		
	20		X	X			X		
51			X						relocating/job search
	17			X	X				
32	21	1	X						relocating from MEMPHIS
	22		X	X	X		X		job search
33	19		X						relocating/robbed
41			X						relocating from IA to OH
33			X						BREAKDOWN
	58		X						relocating/ job search
24	21	2	X		X	X			
30's				X					
	21				X		X		
18			X						relocating from OH to IA
30's	30's	1	X			X			relocating from IND./job S.
32	21			X	X	X			waiting for check
	30's	3						X	
35	31	2	X						relocating from NY/robbed
22				X	X				

PARTICIPANT

ADULT M	ADULT F	CHILDREN under 18	enroute/ INDIGENT	LOCAL STR. PEOPLE	EVICTION	P/A pd'g/ Apt. search	ABUSE	FIRE	MISC/ other
	21	2			X	X			job search
20				X	X				jobless
	52			X		X			SS check lost/DIS-DEV.
	25		X						
28									homeless/til check comes
33	37	3						X	
43			X						
	44	(2 ad. chil.)						X	
	19(p.g.)				X	X			job search
	24	2			X	X			
20's			X						
	20's	1			X	X:			
30	29(pg)	1			X	X			(he) JOB search/ out of rehab
	30	2		X	X:	X	X		
	23	3			X	X			
20,21				X	X	X			1-job search
51				X					
	30's	5	X						
34	44	3	X						car breakdown

PARTICIPANT

ADULT M	ADULT F	CHILDREN under 18	ENROUTE/ INDIGENT	LOCAL STR. PEOPLE	EVICTION	P/A pd'g Apt. search	ABUSE	FIRE	MISC/ other
27	20							X	
20's				X					sleeping in car/jobless
	30	3	X		X				
57	52		X						CAR BREAKDOWN/on way to funeral
	26	3	X		X				
	30			X		X			
?			X						homeless vet
	17	2		X	X	X			
28	34			X					ALC/drug abuse
	40	4	X						car breakdown/ from CA.to FLA.
	23	1			X	X			
31	31	2	X						
40's	40's		X						car breakdown/from NE.
43	38	1	X						" " / from OR. to NE.
20	20		X						FROM CA. to ?/car brk-dwn
122	85								

STATE OF ILLINOIS
DEPARTMENT OF VETERANS' AFFAIRS
P.O. Box 19432 208 West Cook Street Springfield, Illinois 62794-9432 217/782-6641

JOHN W. JOHNSTON
DIRECTOR

JAMES D. ROSAS
ASSISTANT DIRECTOR

September 18, 1987

Honorable Marcy Kaptur
Chairwoman
United States House of Representatives
Subcommittee on Housing
and Memorial Affairs
335 Cannon House Office Building
Washington, D. C. 20515

Attention: Gloria Royce

Dear Congresswoman Kaptur:

Your recent Letter requested the positon of the Department of Veterans' Affairs on the United States Veterans' Administration Home Loan Guaranty Program and the need for a new national cemetery in the Chicago area. We will first provide some descriptive details as to the Department's participation with the Veterans' Administration Home Loan Guaranty Program.

The Department of Veterans' Affairs operates thirty-one veteran services offices in Illinois. Staff in our veteran service offices assist veterans and their families in establishing or continuing any Federal, State or local benefit for which they are eligible. Included among these Federal benefits for which Department staff assist veterans and their spouses is the guarantee, insured, or direct loans from the Veterans' Administration for the purchase or construction of homes, purchase of a farm on which there is a farm residence, solar heating and cooling improvements to a dwelling owned and occupied by the veteran, and the refinancing of a veteran home loan. Our assistances are primarily directed to completions for the requesting veteran or his spouse of the necessary documents e.g. VA Form 26-1880 to establish an eligibility for a Veterans' Administration guaranteed or direct loan of a home loan, tracing statuses of such guarantees, or direct loan, and assisting any veteran who is in default.

We do not wish to include a Statement on the Home Loan Guarantee Program but we will include our views on and support of H.R. 2672.

The Department of Veterans' Affairs accepts wholeheartedly the basic entitlement of guarantees by the United States Veterans' Administration for an eligible veteran's loan to acquire his/her residence. Our concerns are in the particular area of default by a veteran or a survivors spouse on a home loan. During that time of declining interest rates, many veterans were able to initiate the processes for purchase of a home. Anticipations of any home buyer are successful completion of the home purchase contract and title to the property. As is the case with all anticipations there are certain givens, and principle among these givens is a continued employment. With displacement of workers by technology, foreign competition and migration of industry job security is not as stable a given as in past times. The National Uemployment Rate of 6% with Illinois' Unemployment Rate at 7% in August, 1987, has resulted in a default. In Illinois we are advised by the Chicago Regional Office of the United States Veterans' Administration that 5,547 guaranteed veteran home loans are 60-105 days in arrears. We do not suggest that the holder of a Veterans' Administration guaranteed insured loan whether a bank, building and loan association, insurance company, credit union or mortgage and loan company nor the U. S. Veterans' Administration Direct Loan Revolving Fund, bear a loss on defaults. The subject, in addition to the assurance that the lender is not adversely affected by loan defaults, is that the veteran does not lose the equity in his/her home. H.R. 2672, with the provision for a one-time loan of up to $8,400 to eligible veterans who are six months or more delinquent on mortgages due to uncontrollable events, such as unemployment, previously referenced, will protect the home owner's equity. The Department of Veterans' Affairs fully supports this inclusion in H.R. 2672. As relates to a new national cemetery in the Chicago area, I will present the positon of the Department of Veterans' Affairs at the Hearing of the House Veterans' Affairs Subcommittee on Housing and Memorial Affairs at 1:00 P.M., September 25, 1987 in Sherwood, Illinois. My prepared Statement is attached regarding not only the need for a National Cemetery serving the Chicago Area, but an offer of a Site for this purpose.

I look forward to meeting with you on September 25, 1987.

Sincerely,

John W. Johnston
Director

JWJ:bb

Statement of the Director of the Department of Veterans' Affairs on the Need for a National Cemetery in the Chicago Area.

There are 1,300,000 Illinois veterans with almost 265,000 of these veterans 65 years of age or older.

Illinois currently has six National Cemeteries, in Alton, Springfield, Danville, Mound City, Quincy, and Rock Island but none proximate to the northeastern part of our State where 800,000 of our veterans reside.

It is the choice of many who have served our Republic to be interned with other expired veterans. The gathering of deceased veterans in a resting place that provides that special recognition deserved to each and all is a National Cemetery. Not only are the departed veterans recognized by the location, but the visits of familites and friends to their resting place is perhaps the most important recognition of all those afforded.

With such a large concentration of the Illinois veterans in the Chicago area and the aging of the Illinois veteran population, which is currently at an average of 53, a new Illinois national cemetery is required. The desire of families and friends to visit the resting place of a veteran should not be impeded by the need to travel long distances.

The Illinois Department of Veterans' Affairs operates the Manteno Veterans' Home which is approximately 50 miles south of the City of Chicago. Directly across the road from the Manteno Veterans' Home are 160 acres of which 16 acres are currently being used for a State Veterans' Cemetery. The Department is willing to convey, with legislative approval, fee simple for the consideration of $10.00, to the Veterans' Administration, all 160 acres. We estimate that 125,000 or more veterans could be laid to rest at this Manteno Site.

We believe the price is right and the location of a National Cemetery at Manteno, which is easily reached from the City of Chicago by using Interstate 57 South, is the place for this most important Memorial.

The Department of Veterans' Affairs supports a National Cemetery in any northeastern Illinois location, but apparently we do have a view as to the "best location."

Thank you for your attention and the courtesy extended to me to address the House of Representatives Committee on Veterans' Affairs Subcommittee on Housing and Memorial Affairs.

STATEMENT OF ROBERT W. MITCHLER

STATE OF ILLINOIS
DEPARTMENT OF VETERANS' AFFAIRS
P.O. Box 19432 208 West Cook Street Springfield, Illinois 62794-9432 217/782-6641

25 September 1987

Statement to Members of Congress at a Public Hearing in Shorewood, Illinois, on Friday, 25 September 1987, to hear testimony on development of a new National Veterans Cemetery in Northern area of Illinois near the City of Joliet, Illinois.

My name is Robert W. Mitchler. I reside at 7542 Route 34 West, Oswego, Illinois. I am a Navy Veteran of World War II and the Korean War (November 1941 to February 1952). I served as an Illinois State Senator from 1965 to 1981, when I began serving as Legislative Liaison for the Illinois Department of Veterans Affairs, a position I now hold.

I am a Life Member of The American Legion, Veterans of Foreign Wars of the United States, and The American Veterans of World War II, Korea and Vietnam (AMVETS). I am also a member of the La Societe des 40 Hommes et Huit Cheavaux (40 & 8). I have actively served in these veteran organizations at the local, state and national levels since 1946.

I also have been active in the Navy League of the United States, a civilian organization supporting our Sea Services, since 1965, and currently am serving as a National Director and President of the Great Lakes Region (Wisconsin, Illinois, Indiana and Michigan).

During my 16 years service as an Illinois State Senator, I was involved in all legislation related to our veterans. It is, therefore, personal satisfaction to have the State of Illinois rank highest in providing benefits for our veterans and their dependents. I have enjoyed a continuing relationship with the members of the Illinois General Assembly and am proud to report a continued commitment by them to provide the very best in service and benefits to our Illinois citizens who earned special recognition for their military service.

Illinois has approximately 1.5 million veterans. We are proud to report to this Congressional Committee the satisfaction we have in providing veteran services and benefits, both from the Federal and State governments.

With respect to the need for additional National Cemeteries in the State of Illinois, I speak loud and clear for consideration of establishing a new Veterans' Administration National Cemetery in Illinois, to be located in Will County, Illinois. Not only is Federal property available for establishing a new National Veterans Cemetery in Will County, Illinois, but the concentration of veteran population in the northeastern section of the State of Illinois, lends to the favorable consideration of development of a National Veterans Cemetery to serve the veteran population.

Veterans' Administrations National Cemeteries in Illinois are at Alton, Springfield, Danville, Mound City, Quincy and Rock Island. All of these cemeteries are rapidly filling as we are called upon to bury our older veterans from World War I, World War II and Korean War. In several years from now we will be confronted with an increase in burials of our Vietnam War and Post-Vietnam War veterans.

Illinois has excellent transportation facilities in the Will County area, which is important in providing access to a National Veterans Cemetery. This would reduce the long distances required for the families of deceased veterans to travel to National Veteran Cemeteries now located in areas referred to as "downstate" Illinois.

Illinois has long been proud of our active veteran organizations, located in our communities. They stand ready to serve in the burial details and would provide the dignity and honor earned by our veterans when laid to rest in a National Veteran Cemetery located in Will County, Illinois.

I appreciate the opportunity to present this brief testimony to this Congressional Committee and give strong support for your favorable consideration and recommendation to Members of Congress for development and establishing a National Veterans Cemetery in Will County, Illinois. Thank You.

Robert W. Mitchler

Legislative Diaison
Illinois Department of Veterans Affairs

ROBERT W. MITCHLER
STATE SENATOR - RETIRED

LEGISLATIVE LIAISON
ILLINOIS DEPARTMENT
VETERAN AFFAIRS
312/554-8296

HILL SPRING OAKS
7542 ROUTE 34 WEST
OSWEGO, IL 60543

STATEMENT OF

RAY R. SODEN
PAST COMMANDER-IN-CHIEF
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

VETERANS ADMINISTRATION'S NATIONAL CEMETERY IN
CHICAGO, ILLINOIS

SHOREWOOD, ILLINOIS SEPTEMBER 25, 1987

MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for this opportunity to present the views of the Veterans of Foreign Wars with respect to the Veterans Administration's national cemetery system and its ability to meet the growing needs of veterans in the Chicago area. My name is Ray Soden and it was my distinct honor to be the 1973-1974 National Commander-in-Chief of the VFW. I also had the privilege to serve as the 1964-1965 Illinois VFW State Commander.

At the outset, I would like to commend this Subcommittee for its continuing concern for our nation's veterans. Your decision to hold this field hearing in Chicago clearly demonstrates a commitment to discover firsthand what problems face the veteran and his family in a particular region and how they may

best be served.

As you know, Chicago lies within Standard Federal Region V. The national cemetery for Region V is the Custer Regional Cemetery in Michigan which is approximately 150 miles from Chicago. While Illinois does have six national cemeteries, one (Alton) is closed, another (Rock Island) is scheduled to close in 1994 and the remaining four are all due to close within 50 years.

There are two significant facts we must keep in mind when considering the Chicago area's need for a national cemetery. Currently, there is no open national cemetery within a reasonable distance of the Chicago area and the potential number of veterans and their dependents seeking interment in a national cemetery is increasing. According to the VA, there are approximately 780,000 veterans living within the primary service area of Chicago (50 mile radius) and about 295,000 veterans living within the secondary service area (100 mile radius). It is also estimated that 900,000 spouses and dependent children of veterans live within these two areas.

Madam Chairwoman, over one million veterans live in the Chicago area with almost an equal number of dependents who may be eligible. This totals around two million individuals. It should also be noted that the VA has

acknowledged the need for a VA national cemetery in the Chicago area. Chicago is ranked number one on its list of the ten geographic areas in the United States in which the need for burial space for veterans is greatest.

Madam Chairwoman, I believe there can be no doubt, the Chicago area is in need of a national cemetery and, in fact, is the area which could best serve the greatest number of veterans. We look forward to working with the Congress and the Veterans Administration in seeing this potential solution turned into a reality. Once again, I wish to thank this Subcommittee for coming to Illinois and allowing the VFW to be a part of this hearing.

Written Statement of
Dennis R. Guernsey, PDC
Legislative Director

DISABLED AMERICAN VETERANS
DEPARTMENT OF ILLINOIS

During Field Hearings of the
Subcommittee on Housing and Memorial Affairs
of the House Committee on Veterans Affairs

Held at Shorewood (Will County) Illinois
September 25, 1987

Madam Chairwoman, and Congressman Davis:

On behalf of the more than 27,000 members of the Disabled American Veterans Department of Illinois and its Auxiliary, thank you for allowing us the opportunity to present our views on the Veterans Administration's Home Loan Guaranty Program and the VA's National Cemetery System. This statement is presented to reinforce and augment the oral statement we offered during this Subcommittee Field Hearing.

Initially, Madam Chairwoman, the Illinois DAV wishes to echo our oral remarks by commending you on the leadership role you are taking with respect to the VA's Home Loan Guaranty Program, and also your oversight responsibilities regarding the VA's National Cemetery System.

· The VA Home Loan Guaranty Program ·
(The Provisions of H.R. 2672)

In FY 1986, Congress rejected an Administration proposal to increase the VA Home Loan Guaranty user fee. We feel comfortable that, in FY 1988, Congress will again turn back the Administration's proposal to increase the user fee from 1 percent to 2.5 percent. Madam Chairwoman, the Illinois DAV firmly believes that veterans should not pay for the privilege of using an earned benefit entitlement.

VA statistics for FY 1986 reveal that the average loan amount for homes purchased with the VA guaranty exceeded $70,000. In view of those statistics, the Illinois DAV applauds the upward adjustment in the loan guaranty amount from the current $27,500 to $40,000 as provided in H.R. 2672 and approved by the full House. Under H.R. 2672, the guaranty would be 40 percent, up to $40,000. With a 40 percent, rather

than the current 60 percent guaranty, liabilities would be reduced for veterans who receive small-to-moderate home loans, and who default. Additionally, the DAV Department of Illinois has favorably received the provision of H.R. 2672 which would provide up to a maximum of $8,400 in loans to veterans facing foreclosure through no fault of their own, that is, through unemployment or substantial reduction in household income. We look for the Senate to concur in the provisions of H.R. 2672.

The subject of forclosure has now been subtly introduced. While forclosure is a sensitive subject, it must be admitted that the VA Home Loan Guaranty Program continues to experience unacceptably high rates of foreclosure. Madam Chairwoman, numerous witnesses have appeared before your Subcommittee expressing concern over the unacceptably high rate of foreclosures. These witnesses have recommended a variety of proposals, programs, and suggestions to assist veterans and the VA in avoiding foreclosures.

As you are aware, the VA's Inspector General has conducted a number of investigations regarding fraudulent and poor-appraisal practices, equity skimming, kickbacks, lack of standard loan origination policy, and faulty or false credit reporting. These kinds of schemes defraud the Veterans Administration, as well as the veteran. The Illinois DAV holds that some type of protection against these schemes must be written into the VA Home Loan Guaranty Program.

Protection may come in the form of (1) penalties against those who enter into negligent or fradulent practices which inflict financial loss on veterans and the VA; (2) canceling loan guarantees if lenders qualify noncreditworthy veterans who later default; (3) spot-checking for altered credit reports; and (4) curtailing equity skimming by granting the VA immediate access to property in foreclosure.

. The VA National Cemetery System .
(Construction of a New Cemetery in the Chicago Area)

We must preface our comments on the establishment of a new National Cemetery in the Chicago area by noting that presently there are 12 states with no National Cemetery, and six states where National Cemeteries are closed to additional interments. Thus, 36 percent of the 50 states are without National Cemetery grave sites. The more than one million members of the Disabled American Veterans nationwide are mandated by a resolution passed at our National Convention which calls for the existence of a VA National Cemetery in every state. The DAV Department of Illinois fully supports that resolution.

Our preface does not relieve the evidence-of-need for a new National Cemetery in the Chicago area. We believe the need is severe, and we will attempt to address that severity herein.

The Illinois DAV defines "Chicago area" as Cook County; its collar counties of DuPage, Lake, McHenry, and Will; and the outlying counties of Grundy, Kane, Kankakee, and Kendall. According to VA statistics released in March 1986, more than 817,940 veterans reside in this area. What is the common denominator among those veterans? They are growing older. Veterans 65 and over account for about 15 percent of the total veteran population today. This proportion will rise steadily and peak at about the year 2000. When that happens, two out of every three men over 65 will be veterans.

By the year 1990, it is estimated that 1.75 million veterans and dependents in the Chicago area will be eligible for burial in a VA National Cemetery. Of these, it is estimated that by the year 2030 -- the period covered in the oversight study -- more than 658,000 will expire.

The Veterans Administration, in its June 1987, *Report on the National Cemetery System,* appears satisfied (if not boastful) that, at present, 70 percent of our nation's veteran population reside within 100 miles of a National Cemetery, and thus, have reasonable access to an open National Cemetery. If we accept residence within 100 miles of a National Cemetery as "reasonable" access, then the absence of a National Cemetery in the Chicago area is unreasonable. Few of the 817,940 veterans living in the Chicago area fall within the 70 percent national average who reside within 100 miles of a National Cemetery. And, should no new National Cemeteries be constructed, and existing National Cemeteries be allowed to close as predicted, by the year 2020 less than half of our nation's veterans will have reasonable access to a National Cemetery -- this occurring at a time when the anticipated demand for national Cemeteries will be at its greatest.

The Disabled American Veterans Department of Illinois recognizes that there are 1,000 acres of "surplus" real property at the U.S. Army's Joliet Arsenal. We further recognize that there are three areas at the Arsenal which contain the 200-250 acres necessary to establish a VA National Cemetery for the Chicago area.

In summary: (1) By 1990, an estimated 1.75 million veterans will be eligible for interment in a VA National Cemetery; (2) by the year 2030, it is estimated that more than 658,000 eligibles will expire; (3) the closest VA National Cemetery is more than 100 miles removed from the large majority of these eligibles; (4) the distance will increase with the scheduled closure of Rock Island (Illinois) and Wood (Milwaukee, Wisc.) national cemeteries; (5) suitable acreage for construction of a new VA National Cemetery is readily available for transfer to the VA from the U.S. Army's Arsenal at Joliet, Illinois.

In understanding the need -- both in geographics and demograpics, and in understanding the availability of the necessary real property, the Disabled American Veterans strongly endorses the establishment of a new VA National Cemetery in the Chicago area as ". . . testiment to our nation's gratitude for the sacrifice of the many Americans who answered their country's call to arms."

That concludes our written statement, Madam Chairwoman. The DAV Department of Illinois wishes to again thank you for allowing us the opportunity to appear at this Subcommittee Field Hearing and to present our views on the VA's Home Loan Guaranty Program and the VA's National Cemetery System.

STATEMENT OF NEIL VANMETER

Good afternoon Ladies and Gentlemen of the committee.

Let me introduce myself,
My name is Harvey Neil VanMeter, I am the Chairman of NCOA Chapter 992 at Great Lakes Il. I am a Chief Petty Officer in the United States Navy with 17 years of continuous active duty service.

I would like to thank you all for this opportunity of testifying at this hearing.

The Great Lakes Chapter of the NCOA is in agreement with and supports NCOA's position on the V.A. Home Loan Guaranty Program and on the V.A. National Cemetery System in general and in detail as stated in the letters of Charles R. Jackson dated 01 July 87 and Richard W. Johnson dated 20 April 87, 17 June 87 and 23 June 87.

The focus of my testimony will be in regards to the V.A. Home Guaranty Program.

The NCOA was asked to comment on program wide issues concerning V.A. home loans. These comments are contained in sections of the letter written by Richard W. Johnson dated 17 June 87. Among other things Mr. Johnson pointed out the shortcomings of the V.A. procedures for dealing with veterans potentially or actually in default on their loans. He characterizes this as the most significant shortfall of the entire home loan program.

The financial world today is vastly different than it was a decade ago. This is especially true for people like myself. Probably not since the 30's has there been so much change. Terms like IRA, inflation, CD, interest rate fluctuation, variable rate mortgages, and chapter 13 have become commonplace in today world. Many of these terms did not exist until recently not to mention the realities they portray. I am not really sure I understand most of these changes. Nothing has changed as rapidly or profoundly as home mortgages. It is not just the financial instrument used to pay for the home which is more complex, the market itself tends to be extremely volatile with housing cost sky rocketing and interest rates fluctuating.

As I see it the problem is the default rate being by some estimates as much four times as high as ten years ago. Houses may be more expensive today and they may be more difficult to acquire but once you have the house losing it is a personal and financial disaster.

In today housing market the veteran is seen as an easy sale by real estate agents whose principal concern is not the well-being of the veteran. The main reason that veterans are good prospects for real estate purchases is that the qualifying ceiling on a V.A. loan is much higher than a FHA or conventional mortgage plus the added advantage of no down payment.

We believe that the no down payment aspect is a major benefit for veterans but the high qualifying ceiling makes it easy for someone to over commit themselves financially. I believe this to be one of major contributing factors to the high default rate of V.A. loans. It would be in the best interest of all parties involved if the qualifying restrictions and the applicant screening for V.A. loans were tightened up so as to prevent the veteran from over extending himself financially.

NCOA has made a number of recommendations concerning the reduction of the default rate which we support. However I feel that the matter of counselling was sold short. According to Mr. Johnson as I said previously the lack of assistance to Veterans in danger of default is the most significant shortfall in the home loan program. To limit such a program to the distribution of a brief pamphlet or even answering a few questions is simply not enough. In purchasing the house the veteran had plenty of help. But when he is seriously compromised almost no one will talk to him.

A more aggressive counselling program that would get to the veteran earlier and not only inform him of all of his options but actively work with him to find and implement a solution to alleviate the problem would be vastly more effective than some sterile list of options in a pamphlet.

Such a program would also identify early on cases for which there is no cure. Here we agree with NCOA that extended forbearance can only delay the inevitable causing more harm to everyone involved .

There are any number of organizations which specialize in providing debt assistance to individuals in a very effective way. If the VA were to provide such a program it should probably be a separate function from normal operations. I have not made a life study of these possibilities . But it is difficult to believe such a program would not be cost effective. There must be enormous cost in having this high of a default rate. A serious aggressive separate program should more than pay for itself.

H.R. 2672 appears to be a definite improvement in finding a long term solution to some of the problems instead of a short term fix. Incorporating my suggestions would be a another step in the right direction.

Very respectfully,

Harvey N. VanMeter
Chapter Chairman

STATEMENT OF

JOHN F. CRYAN

STATE DIRECTOR OF VETERANS AFFAIRS
AND REHABILITATION
THE AMERICAN LEGION, DEPARTMENT OF ILLINOIS

AND
PAUL E. BRIESE

ALTERNATE NATIONAL EXECUTIVE
COMMITTEEMAN
THE AMERICAN LEGION, DEPARTMENT OF ILLINOIS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND
MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

SHOREWOOD, ILLINOIS
SEPTEMBER 25, 1987

Madame Chairwoman and Distinguished Members of the Committee:

The American Legion, Department of Illinois appreciates the opportunity to share with you our views on the Veterans Administration's (VA) Loan Guaranty Service and the proposed legislation that is being considered by this Committee. Attached to our written statement are copies of two resolutions that were adopted by the American Legion this past August, 1987. We respectfully request that they be made a part of this hearing.

S.9 would, among other things, amend title 38, USC by increasing grants for special adaptive housing and the amount of guaranty on VA Loans. This bill would also exempt the VA Loan Guaranty Service, as well as other veterans benefits programs, from sequestration.

Section 3 would amend section 802 of title 38 by increasing the maximum amount that a disabled veteran can obtain for the construction of a specially adaptive housing unit, or the renovation of an existing home which is not adapted to requirements necessitated by the veteran's disability, from 35,500 to 40,000. Further, it would increase the amount available for the purchase and installation of special adaptive equipment in a home owned by the veteran from $6,000 to $6,775. The American Legion is supportive of these two measures.

Section 6 seeks to amend section 1810 of title 38 by increasing the maximum amount guaranteed by the VA on home loans from $27,500 to $36,000. The American Legion supports this provision for two reasons.

As you well know, Madame Chairwoman, the cost of homes in cities like New York, Los Angeles, San Francisco, and the District of Columbia and certain areas in Illinois generally far exceed the national average cost of $74,324. Since most lenders have set the maximum loan amount on VA mortgages at $110,000 (four times the loan guaranty),

it is often difficult, if not impossible, for veterans living in the aforementioned cities to purchase a suitable home.

Frequently, it is necessary for the veteran to pay in excess of the maximum loan amount in order to obtain adequate housing. In these cases, the veteran is expected to make up the difference between the selling price and the maximum loan amount in the form of a down payment. As a result, many first-time home buyers, lacking capital, cannot enter the housing market. If this provision were enacted, most lenders would no doubt raise the maximum loan amount to $144,000, which would allow more veterans in high housing cost areas to use their VA loan entitlement. Our second reason for supporting this measure is that it would make the program more attractive to lenders. Since participation in the program is voluntary, no doubt more lenders would be willing to make VA home loans if a greater portion of their investments were protected. This, of course, would also make it easier for veterans to use their entitlement.

The final provision of this bill, section 8, seeks to exempt the VA's loan guaranty program, as well as other veterans benefits programs, from sequestration under the Gramm-Rudman-Hollins Deficit Reduction Act which was enacted late in 1985. The American Legion shares with Congress a desire for a balanced budget. However, we do not think that it is wise or just to attempt to reach this goal at the expense of those men and women who served our country.

As you will recall, in February of 1986 the VA's Loan Guaranty Program was in a state of crisis due to an unrealistically low "cap" that had been placed on its credit authority and exacerbated by an additional Gramm-Rudman reduction. Because of an error on the part of the Office of Management and Budget and the Congressional Budget Office in calculating the VA's credit ceiling,

its budget was reduced to $11.5 billion, or $5.3 billion less than what is actually needed for fiscal year 1986.

Had this situation gone unchecked, one of two things would have happened. Either the program would have run out of loan authority in April, or the VA would have been forced to impose severe eligibility restrictions. Thanks to the quick action of Congress in raising the cap, a major disaster was averted.

What continues to puzzle the American Legion, Department of Illinois is the rationale behind sequestering a credit ceiling which did not involve appropriation of actual funding. In this case, the only time that money would change hands would be in the event of a foreclosure. Logic alone dictates that the loan guaranty credit ceiling ought to be exempt from sequestration.

S.920 seeks to amend chapter 37 of title 38 by allowing for a negotiated interest rate, an increase in the user's fee, direct appropriations to the Loan Guaranty Revolving Fund (LGRF), as well as other changes.

Section 2 calls for changes in sections 1803, 1810, 1811, and 1819 of title 38 which would take away the VA Administrator's power to set interest rates on VA Loans. What S.920 proposes is that the veteran be allowed to negotiate the interest rate on his or her loan with the lender. Please remember, Madame Chairwoman, that the interest rate at present is established by the Administrator and is a maximum rate. Lenders are already free to charge lower interest rates if they so choose. Thus, the effect of this proposal can only be to grant license to lenders to charge higher rates. In addition, in other forms of financing, there is a direct correlation between the size of a down payment and the rate of interest. In fact, most conventional mortgages require a down payment of at least ten percent.

We thus believe that the loser would be the first-time home buying veteran--precisely those who need the Loan Guaranty program the most. It is the belief of The American Legion, Department of Illinois that if this proposal were adopted, the no down payment feature of the VA home loan program would be seriously jeopardized.

As you know, Madame Chairwoman, there are elements in the Administration who have long advocated getting the Federal government out of the credit market. It would appear to us that one means of attaining this goal would be to circumvent the intent of the VA's loan guaranty program and thereby make it inaccessible to veterans for whom it was designed. If down payments on VA-backed mortgages became the rule rather than the exception (currently 72.8 percent of all primary VA home loans are made with no down payment), then we believe that participation in the program would dwindle quickly. Once lack of participation became an issue, it would be very easy for the Administration to justify elimination of the program.

Section 3 seeks to amend section 1829 of title 38 to allow for an increase in the user's fee from one percent to 2.5 percent. The American Legion strongly opposes this provision. Let us be very clear that the user's fee is nothing more than a form of taxation; a tax which has been placed on an earned entitlement. In the opinion of the American Legion, those entitled to use this program have already paid a dear price for their eligibility.

Another objection that we have to the user's fee is that it defeats the purpose of the program and creates a disincentive for use. When a veteran purchases a home, he or she has the option of either paying the fee in full at the time of sale, or including it in the total loan amount and amortizing it over the life of the loan. In either case,

lower income veterans and first-time home buyers are often shut out the housing market because they can neither pay such a fee up front, nor can they afford the increase in monthly payments that such a fee can represent.

Section 4 would amend section 1824 of title 38 to allow for direct appropriations to the LGRF. Under current law, the LGRF is replenished by revenue from four sources: transfer of appropriations from readjustment benefits; proceeds from the user's fee; collections from the operation of the program; and the transfer of funds from the Direct Loan Revolving Fund. When there are insufficient funds in the LGRF to meet the VA's guaranty obligations to loan holders, an appropriation becomes necessary. Currently, when appropriations are needed, they are made to the readjustment benefits account and are then transferred to the LGRF. Since this system seems unnecessarily complicated, The American Legion would support this part of the provision. Our main reservation is the $75 million limit that has been proposed on transfers to the LGRF since this figure was predicted on an increase in the user's fee. Should Congress decide not to increase the user's fee, would the proposed limit be realistic?

Section 7 seeks to amend section 1831 of title 38 by transferring the responsibility for determining the reasonable value of a property from the Administrator to approved lenders. These determinations would be based, as they are now, on the reports of VA-approved fee appraisers. Since it would appear that this system would streamline VA field operations and provide more timely service to veterans, The American Legion would support this change in the law, provided that the VA develops careful checks on the appraisal system to avoid over pricing and the later consequences thereof.

H. Con. Res. 79 reaffirms the sense of Congress that the one percent user's fee should not be increased as the Administration has proposed. While The American Legion appreciates the intent of the proposal to hold down user fee increases, we remain firmly opposed to the user fee itself. As you know, the legislation that authorized the user's fee is due to expire on September 30 of this year. It is our sincere hope that you and the other members of this Committee will join The American Legion in opposing its continuation at any rate.

What can be done to improve service to veterans? Before responding to that question, we believe that it would be useful to look at the original intent of the program. The VA's home loan program was originally conceived as a part of the Servicemen's Readjustment Act of 1944. Its purpose was to aid in the economic and sociological readjustment of the millions of men and women who were then serving in the Armed Forces of the United States. Congress viewed this as a viable alternative to cash bonus as it was vastly less expensive to the Government, and because it would better serve the needs of the veteran and the economy.

Supporters of this legislation felt that veterans, because of their years of service to their country, had missed an opportunity to establish a credit rating which would be the basis of borrowing to acquire a home or business loan. In essence, it was an attempt to place the veteran on an economic par with his or her non-veteran counterpart.

Madame Chairwoman, our point is this: Congress did not intend for the program to make money for the Treasury, nor did it even expect the program to be self-supporting. What Congress did intend, however, was for the VA home loan program to be used to aid in the readjustment of veterans.

As we mentioned earlier in this statement, there are some factions of the Administration so adamant on getting the Federal government out of the credit market that they will stop at nothing to achieve their goal. When one looks at the Administration's loan guaranty proposals, it becomes clear, at least to The American Legion, that they are designed to discourage participation, to further emasculate the program and, finally, to eliminate it entirely.

If Congress is truly sincere about strengthening and improving this program, it will first be necessary to deal with the basics. One of the first issues that should be dealt with is staffing.

Over the years, The American Legion has monitored the Loan Guaranty Program closely, and, for the most part, has been pleased with the service provided the veterans. Unfortunately, that is no longer the case.

Consistent reductions in VA's Department of Veterans Benefits (DVB) staffing over the past years have greatly reduced the agency's ability to provide the quality and timely service to which we believe the veteran is entitled. In fact, it is our understanding that the shortage of DVB staffing is so severe in some VA Regional Offices (VARO's) that financial counselling is no longer available.

The VA has attempted to reach its reduced staff ceiling through attrition. Since most vacancies occur in the lower-grade clerical positions, senior staff are now expected to do much of the routine filing and typing.

This of course, interferes with the amount of time and attention that can be devoted to working with the veteran.

The decision by the Office Management and Budget to allow early retirement has also created problems for the VA. In a letter to House Veterans Affairs Committee Chairman, G.V. "Sonny Montgomery" (which later appeared in 1986 House publication concerning the effect of the Deficit Reduction Act), the Director of the Denver VARO told of losing four senior staff through early retirement. These retirees took with them a combined total of 106 years of expertise.

Another significant part of that letter read as follows:

"The overall workload of this station is increasing significantly, primarily due to the QUINTUPLING of our loan guaranty activities within the last six months, with no end in sight. An extremely serious consequence of the increasing workload and ever-decreasing staff is that our remaining employees are becoming more and more frustrated and stressed by not being able to keep up with the workload. In addition, they are becoming the objects of the public's anger for not providing timely responses and services. Should this high frustration level continue, it is entirely possible that we will experience a higher-than-normal turnover rate, which will only further compound the problems. We have already experienced losses in the loan guaranty area for higher paying jobs with less stress"

Since the inception of the Loan Guaranty Program, some 45 years ago, this has been one of the most popular and successful of all veterans benefits.

During that time, it has allowed more than 12 million veterans to purchase homes valued at more than $275 billion. While assisting veterans, the program has also benefitted the Nation's economy by increasing the tax base of communities and states. At the same time, bankers, builders, realtors and investors, to name just a few, have also prospered because of the program's existence. Unlike many other Federal Programs, the VA Loan Guaranty Service has for the most part been well managed, and, until recent years, has remained completely self-supporting. One of the major reasons that the program eventually became insolvent had to do with the sale of its loan portfolio.

With enactment of the Budget Reconciliation Act of 1983, the VA was required to sell its portfolio of direct, or vendee, loans. This move, which was very shortsighted on the part of the Administration proved to be highly disruptive to the LGRF. Without this portfolio, the VA was unable to borrow on its assets to meet guaranty obligations at precisely the same time that foreclosures were increasing dramatically because of economic conditions and not because of any failure within the program.

At that time, it was projected that the sale of the portfolio would generate $968 million in income that would go to the Treasury as miscellaneous offsetting receipts. In actually, the sale of portfolio loans in 1983 only netted the Treasury $683.9 million. Continued sales in 1984 netted the Treasury another $853.7 million. Even though the income was less than projected, the 1983 and 1984 sales of VA loans returned income to the Treasury amounting to $1.5 billion. Given the size of this figure, and the interest that would have accumulated, it would appear that sufficient assets could have been generated to cover LGRF shortfalls created by high foreclosure rates had the VA been permitted to maintain and properly manage its loan portfolio. In our opinion,

further liquidation of the loan portfolio should be prohibited. Instead, it should be restored to its former profit generating status.

Another issue of concern to The American Legion is the inequity that exists concerning the veterans liability in VA loan assumptions. Under current law, if the veteran decides to sell his or her home, it is possible for the buyer to assume the veteran's original loan. If that buyer should decide to sell the home at some point in the future, the loan can again be assumed. The problem with this other wise attractive feature is that unless the veteran secures a release from liability from the party assuming the loan, the veteran continues to be liable for the unpaid balance of the mortgages, should the buyer, or some subsequent buyer, go into foreclosure.

For whatever reason, the veteran who allows the buyer to assume the loan is often unaware of his or her responsibility under the law until it is too late. The American Legion, Department of Illinois is mystified as to why the VA has not made more of an effort to inform veterans of their responsibility in this regard. We believe that legislation to make it mandatory for the person assuming a VA loan to also assume complete responsibility for that loan in the event of foreclosure should be introduced by this Committee. Furthermore, we believe that this legislation should also contain language which would provide relief for those veterans who have become, or who may become at some later date, indebted to the VA in this manner.

We applaud the recent proposal regarding mortgage assumptions through which mandatory credit checks must be obtained on all buyers assuming VA loans. Since this system would better protect the interest of the VA Loan Guaranty Service and the veteran whose loan is assumed, The American Legion would have no objection to enactment of this proposal.

Madame Chairwoman, that concludes our statement. We will be happy to answer any questions you may have.

THE AMERICAN LEGION
69TH NATIONAL CONVENTION
SAN ANTONIO, TEXAS
AUGUST 25-27, 1987

RESOLUTION 11 (WY)

SUBJECT: VA LOAN ASSUMPTION

WHEREAS, The VA's Home Loan Program, one of the most important of all veterans benefits, has provided over 11 million veterans and their families the opportunity to become home owners: and

WHEREAS, One of the attractive features of the program is that, if the veteran chooses to sell his home, his VA backed loan may be assumed by the purchaser and by subsequent purchaser; and

WHEREAS, Under present law, unless the veteran has secured a release from liability from the VA at the time of the sale and in case of default by any purchaser who assumes the veteran's original loan, the veteran remains liable for the unpaid balance of the mortgage; and

WHEREAS, Many veterans, unaware of the need to secure such a release from liability, have suffered financially because of having to pay off debt that was not of their own making; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in San Antonio, Texas, August 15, 26 and 27, 1987, that The American Legion seek legislation to remove the VA requirement that a veteran must secure a release from liability statement when a purchaser assumes a VA loan, providing that the VA shall proceed only against the individual who defaults on a VA-guaranteed loan; and be it further

RESOLVED, That such legislation shall provide that the VA shall cancel any existing claims against any veterans who had previously owned such defaulted property, including those claims being processed at the time the legislation becomes effective, and cancelling any ongoing collections from veterans because of such claims.

THE AMERICAN LEGION
69TH NATIONAL CONVENTION
SAN ANTONIO, TEXAS
AUGUST 25-27, 1987

RESOLUTION 273 (ID)

SUBJECT: SUPPORT VA LOAN GUARANTY PROGRAM

WHEREAS, The va home loan program, as a benefit available to veterans who served their country honorably, has provided nearly 12 million veterans with the opportunity to own their own homes; and

WHEREAS, Because of changing economic conditions and the very volatile nature of the real estate market, many hundreds of thousands of Vietnam era veterans have been unable to purchase their first homes; and

WHEREAS, The home loan program has operated successfully under the Veterans Administration since 1944, and has acted as a model for similar programs; and

WHEREAS, From time to time initiatives are made in the home loan program that would dilute the intent of the home loan progran and make it more difficult for veterans to obtain VA-guaranteed home loans; nov therefore be it

RESOLVED, By The American Legion in National Convention assembled in Cncinnati, Ohio, September 2,3,4, 1986, that The American Legion support the home loan program for veterans in the Veterans Administration and oppose any regulations or legislations that will make it difficult for veterans to buy homes, including imposition of any user fee; and be it further

RESOLVED, That The American Legion support legislation to exempt the VA home loan credit limits from the requirements of Gramm-Rudman-Hollings legislation.